More effective social services

Draft Report

April 2015

The New Zealand Productivity Commission – Te Kōmihana Whai Hua o Aotearoa[1]

Date: April 2015

The Commission – an independent Crown entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues. The Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders. The Commission is bound and guided by the New Zealand Productivity Commission Act 2010.

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[1] The Commission that pursues abundance for New Zealand.

Terms of reference

NEW ZEALAND PRODUCTIVITY COMMISSION INQUIRY INTO ENHANCING PRODUCTIVITY AND VALUE IN PUBLIC SERVICES

Issued by the Minister of Finance, the Minister of State Services (the "referring Ministers").

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission ("the Commission") undertake an inquiry into enhancing productivity and value in the state sector (focusing on the purchasing of social sector services).

Context

1. The Government is trying to bring greater clarity about results from public services (such as the 10 Better Public Services results), and develop smarter strategies and deeper capability to achieve desirable outcomes. Government agencies need to know what actually drives poor outcomes and what concrete actions can prevent or alleviate harm. They need to become more intelligent and effective purchasers that can identify who their most exposed clients are, and better understand what goes on at the frontline. The agencies can then start making decisions to improve services and, thereby, outcomes for people and their communities.

2. There are significant gains to be made by challenging and improving the way in which social sector agencies identify need and purchase services. In particular, this will involve a more intelligent system that understands what impacts it is having and incentivises and enables innovation.

3. The Government has already taken some important steps – its world-first Welfare Investment Approach is a shift towards a smarter system. The new governance structures and ways of purchasing services in the Social Sector Trials and Whānau Ora are examples of innovations in commissioning services.

4. There is growing international awareness that difficult social problems are no longer just the domain of governments and that tackling them in new and innovative ways to get better results will involve combining the expertise of public, social and private sectors.

5. Internationally, governments are demonstrating a much stronger focus on understanding outcomes and measuring value for money from social-service investment. New Zealand can benefit from the experiences of countries such as the UK – for example in implementing payment-by-results contracts in social services.

Purpose and Scope

6. Having regard to the context outlined above, the referring Ministers request the Commission to carry out an investigation into improving outcomes for New Zealanders as a result of services resourced by the New Zealand state sector. In keeping with Better Public Services, the investigation will focus on the performance and potential improvement of social-sector purchasing/commissioning of services (including services currently delivered by the state sector). The focus should be on the institutional arrangements and contracting mechanisms that can assist improved outcomes, rather than commenting on specific policies (such as benefit settings or early childhood education subsidies).

7. Two broad questions should guide the investigation. These focus on the way that state sector agencies select and organise their functions, and the tools they employ to achieve results:

   What institutional arrangements would support smarter purchasing/commissioning?

   - The Inquiry should provide an overview of emerging new commissioning arrangements both internationally and within New Zealand, focusing on one or two representative agencies. How are population analytics, policy, purchasing, evaluation, different forms of relationships and other

relevant functions organised and incentivised? How effective are these arrangements at targeting services at particular clients, combining efforts with other agencies and achieving desired outcomes across the social sector?

- What lessons are there from the Government's initiatives to date (e.g. BPS results and the welfare investment model) and from other national or international innovations for bringing a greater performance focus to purchasing? What organisational features (e.g. internal purchase centres, external challenge) are most effective? How can agencies build and maintain better commissioning capability (skills and systems)?

What market arrangements, new technologies and contracting or commissioning tools would help achieve results?

- Provide an overview and assessment of the range of contracting mechanisms, purchase vehicles and new technologies that have been employed in New Zealand or internationally to enable innovation and better results. Examples include outcome-based contracts, joint ventures, local devolution and the use of ICT to facilitate greater client focus and participation. What are the key themes of the innovations? What have been the general features of successful and unsuccessful approaches? What is the role of the community in innovation and/or ensuring that the new purchase arrangements work? How important is contestability or other performance mechanisms for ongoing improvement of outcomes?

- Looking at two to three specific outcome or service areas, what lessons are there for applying new purchase mechanisms in New Zealand? How can any risks be managed? What are the barriers to adoption?

- Consideration should be given to the characteristics of the New Zealand provider market, and how it differs from regular commercial markets and how the role of the community impacts on it. In particular, the inquiry should examine the openness, capacity and capability of current providers to manage new purchase models (e.g. financially-linked, results-based contracts), and how the Crown could influence the shape and long-term sustainability of the market in the future.

Analysis and Recommendations

8. The inquiry should explore academic research and international experience related to both questions. However, the focus should be on practical applications relevant to New Zealand circumstances.

9. The Commission should work with a couple of departments and/or Crown entities, reviewing current approaches and ongoing changes to draw lessons and identify opportunities for change. It is expected that analysis and recommendations will provide useful guidance to Ministers and State Sector Chief Executives about how to improve the way services are commissioned.

Consultation

The Commission will also consult with non-government organisations and other providers, academics and international agencies as required.

Timeframes

The Commission must publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to referring Ministers by 30 June 2015[2].

Referring Ministers

Hon Bill English, Minister of Finance
Hon Dr Jonathan Coleman, Minister of State Services

[2] Note: The inquiry timeframe has been extended to 31 August 2015.

About the draft report

This draft report aims to assist individuals and organisations to participate in the inquiry. It outlines the background to the inquiry, the Commission's intended approach, and the matters about which the Commission is seeking comment and information.

This draft report contains the Commission's draft findings and recommendations. It also contains a limited number of questions to which responses are invited but not required. The Commission welcomes information and comment on all issues that participants consider relevant to the inquiry's terms of reference.

Key inquiry dates

Receipt of terms of reference:	26 June 2014
Release of issues paper:	7 October 2014
Release of draft report:	28 April 2015
Draft report submissions due:	24 June 2015
Final report to the Government	31 August 2015

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Why make a submission?

The Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders. Submissions help the Commission to gather ideas, opinions and information to ensure that inquiries are well-informed and relevant, and that its advice is relevant, credible and workable.

Submissions will help shape the nature and focus of this inquiry. Inquiry reports may cite or directly incorporate relevant information from submissions.

How to make a submission

Anyone can make a submission. It may be in written, electronic or audio format. A submission can range from a short letter on a single issue to a more substantial document covering many issues. Please provide supporting facts, figures, data, examples and documentation where possible. Every submission is

welcomed; however, identical submissions will not carry any more weight than the merits of the arguments presented. Submissions may incorporate relevant material provided to other reviews or inquiries.

Submissions may be lodged at www.productivity.govt.nz or emailed to info@productivity.govt.nz. Word or searchable PDF format is preferred. Submissions may also be posted. Please email an electronic copy as well, if possible.

Submissions should include the submitter's name and contact details, and the details of any organisation represented. The Commission will not accept submissions that, in its opinion, contain inappropriate or defamatory content. The Commission has no power or jurisdiction to influence individual cases or disputes between parties.

What the Commission will do with the submissions

The Commission seeks to have as much information as possible on the public record. Submissions will become publicly available documents on the Commission's website shortly after receipt, unless accompanied by a request to delay release for a short period of time.

The Commission is subject to the Official Information Act 1982, and can accept material in confidence only under special circumstances. Please contact the Commission before submitting such material.

Other ways to participate

The Commission welcomes engagement on its inquiries. It anticipates holding regional meetings and/or roundtables on the draft report in June 2015. Details of these will be notified to all those on the inquiry's interested-parties list. Please telephone or send an email if you are not already on this list and would like to be added.

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Commonly used terms

Term	Description
allocative efficiency	Maximum allocative efficiency requires the production, from a given amount of resources, of a set of goods and services that people most value.
client-directed budget	A service model where the government allocates clients a "service budget" and permits them to choose the services they receive up to the value of the budget. Government funding follows the choices made by providers.
client-directed service models	The client-directed budget and voucher service models.
commissioning	A set of interrelated tasks that need to be undertaken to turn policy objectives into effective social services. Commissioning organisations should consider objectives, needs, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider market sustainability and interactions with other services; and choose an appropriate service model. (See Chapter 6)
competition for the market	An approach to contracting whereby providers compete for contracts through a tendering process, and their service volume or market share is fixed for the duration of the contract.
competition in the market	An approach to contracting whereby providers compete alongside each other to attract clients.
contestability	The characteristic of a market where the opportunity to supply the good or service is open to all qualified providers.
contracting for outcomes	Contacts that specify desired outcomes, and there is a risk of losing the contract if those outcomes are not achieved.
contracting for outputs	Contacts that specify the outputs, and there is a risk of losing the contract if those outputs are not delivered.
contracting out	A service model where the Government contracts a third party to provide specific social services.
decentralisation	The transfer of substantial decision-making power to semi-autonomous organisations with separate governance.
demand-side	Market activity, influences or conditions related to consumers of goods and services.
diffusion	The process by which a new idea, technology or product is adopted across a society or economy.
dynamic efficiency	*Dynamic efficiency* is achieved when optimal decisions are made on investment, innovation and market entry and exit, to create productive and allocative efficiency in the longer term.
economic profit	The difference between revenue and costs, where all inputs (including capital) are valued at their *opportunity cost* (ie, what they could earn in their next most valued use).
economies of scale	Reduction of cost per unit as the volume of production increases, due to large up-front or fixed costs being spread across more units.
for profit (FP)	An organisation that earns profits for its owners.
government agency	A broad set of government departments, Crown entities and other organisations (eg, the Police) involved in the delivery of social services.

Term	Description
incumbent	In economics, an *incumbent firm* is an established business with a strong position in the market.
information and communications technology (ICT)	Telecommunications, broadcast media and information technology (IT). *ICT* is a more encompassing term than *IT,* and stresses the innovative role of unified communications and integrated digital networks in economic activity.
innovation	The process of translating an idea or an invention into a good or service that has value.
institutional architecture	The design of institutions that govern the operation of the social services system. It includes the roles and responsibilities of different organisations and rules around their interaction. Chapter 5 discusses three broad architectures: *top-down control*, *decentralisation* and *social insurance*. The main distinction between these architectures is who has the responsibility to design and commission services.
intervention	Services that intervene in a situation in order to alter the likely course of future events.
managed market	A "market" with more than one provider, where market share and prices are determined administratively.
market for social services	A market is a setting in which parties voluntarily undertake exchanges. In the context of this inquiry, the market for social services refers to the provision of social services in exchange for payment. Funding could come from a government agency or another organisation (eg, a philanthropic trust). In some cases, clients partly or fully fund the service. The provision and purchase of social services meets the economic definition of a market, yet it has complex and distinctive features that make it different from simple markets. The term is used in the inquiry terms of reference.
monopoly	A situation where one provider is the only supplier of a service. A *monopoly* is characterised by an absence of competition.
monopsony	A market that has only one buyer and many would be sellers.
non-government organisation (NGO)	Any organisation involved in the social services system other than a government agency.
not for profit (NFP)	An organisation that does not earn profits for its owners. Money earned by or donated to a NFP is used to pursue the organisations mission and objectives.
outcome-focused contracting	Contracting for outputs, in the context of clear intervention logic, outcome measurement and a clear and upfront statement of the purpose of the contract. The purpose statement should be used as a basis for discussion aimed at improvement.
outcomes	The longer-term consequences of an intervention or programme in terms of the ends sought (eg, better health or reduced re-offending).
outputs	The amount of social services provided. Examples include hours of counselling, number of patients seen and the number of people attending training courses.
payment for outcomes	Contracting for outcomes, plus payments that vary according to performance measures specified in terms of outcomes achieved.
payment for outputs	Contracting for outputs, plus payments that vary according to performance measures specified in terms of outputs delivered.
productive efficiency	Maximum *productive efficiency* requires that goods and services are produced at the lowest possible cost. This requires maximum output for the volume of specific inputs used, plus optimum use of inputs given their relative prices.

Term	Description
purchasing	The purchasing process identifies and selects non-government providers and agrees terms of supply though a contract. It includes calling for expressions of interest to supply social services, evaluating proposals from potential providers, completing due diligence, negotiating the terms of the contract and awarding the contract.
quality shading	A situation where cost savings are achieved by reducing the quality of a services. Quality shading is a particular problem when it is difficult to observe or measure the quality of services being provided.
service model	A way of conceptualising different approaches to services delivery. Chapter 6 explores seven different service models and their strengths and weaknesses.
social insurance	An insurance scheme organised by the state with compulsory membership, and in which premiums are related to the ability to pay.
social services	Services dedicated to enhancing people's economic and social wellbeing by helping them lead more stable, healthy, self-sufficient and fulfilling lives. This inquiry is primarily concerned with social services that government provides, funds or otherwise supports.
system stewardship	An overarching responsibility for the monitoring, planning and management of resources in such a way as to maintain and improve system performance. Relevant activities include monitoring system performance, identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change.
service stewardship	The ongoing monitoring of service performance, and re-visiting design choices as necessary to improve performance.
social service agencies	Government agencies that deliver social services. Often abbreviated to *agencies* in this report.
social service providers	Non-government organisations that provide social services.
social services system	The system of organisations, institutions and relationships through which social services are funded, coordinated and delivered.
social insurance	Assigns both decision-making power and liability for future costs to an insurer.
supply-side	Market activity, influences or conditions related to producers of goods and services.
transaction costs	Costs incurred by the parties making an economic exchange, other than the amount paid directly for the good or service purchased. Transaction costs can include *search costs* such as the cost of tendering processes, *bargaining costs* such as the legal fees associated with drawing up a contract, and *enforcement costs* such as the cost of performance reporting and monitoring.
top-down control	Primary decision-making power sits with the relevant minister or department head.

Box 1 **Te Reo Māori used in the report**

Te Reo Māori is one of New Zealand's three official languages – along with New Zealand English and New Zealand Sign Language. This draft report uses some terms that may be unfamiliar to international readers.

- *hui* – literally a gathering or meeting. As used in this draft report, hui refers to a community meeting conducted according to *tikanga Māori* (Māori protocol).
- *iwi* – often translated as "tribe". Iwi are a collection of *hapū* (clans) that are composed of *whānau* (defined below). The link between the three groupings is genealogical.
- *kaupapa* – purpose, mission, or approach.
- *kawanatanga* – the features and actions of governing.
- *koha* – gift or donation.
- *kōhanga reo* – literally "language nests" – are pre-school Māori culture and language immersion programmes.
- *kōrero kanohi ki te kanohi* – conversing face to face.
- *kura kaupapa Māori* – Māori-medium schools.
- *manaakitanga* – the process of showing respect, generosity and care for others. It has an overtone of hospitality towards those outside a group you identify with. In its simplest definition (hospitality), all Māori groups or whānau will exercise manaakitanga at some time.
- *mana motuhake* – a political concept, emphasising autonomy and self-government (see Box 13.1).
- *mana whenua* – the iwi or hapū who are recognised as deriving mana (authority/status) from their ancestral connection to that particular stretch of land or coast.
- *mataawaka* – refers to the Māori population in one area that is connected to an iwi or hapū who holds mana whenua somewhere outside that area.
- *rangatiratanga* – a contested term in the context of *Te Tiriti o Waitangi* (see below). It can refer to chieftainship or chiefly authority and leadership. Other interpretations include "sovereignty" and "autonomy".
- *rohe* – area.
- *rūnanga* – a governing body associated with an iwi.
- *Te Puni Kōkiri* – the Ministry of Māori Development.
- *Te Tiriti o Waitangi* – The Treaty of Waitangi. The treaty signed by representatives of the British Crown and various Māori chiefs at Waitangi on 6 February 1840. The Treaty is one of New Zealand's founding documents. The Treaty has English and Māori versions. The translations do not strictly align.
- *tangata whenua* – literally "the people of the land".
- *tāonga* – that which is precious or treasured.
- *Te Ao Māori* – literally "the Māori world".
- *Te Ika a Māui* – literally "the fish of Māui" – the North Island of New Zealand.

- *Te Hiku o Te Ika* – the part of the Far North District that is north of the Hokianga.
- *Te Waipounamu* – the South Island.
- *te mana whakahaere* – translated variously as the "power to manage", "governance" or "authority".
- *tikanga* – literally "the things that are correct". Sometimes translated as "protocol" or "customary practice," tikanga is concerned with ways of correct action.
- *wānanga* – publicly owned tertiary institutions that provide education in a Māori cultural context.
- *whakapapa* – to make connection to place, and through that to people.
- *whānau* – typically translated as "families". Whānau may refer to nuclear or extended families.
- *Whānau Ora* – a government initiative emphasising the empowerment of whānau to become self-managing. More broadly, *Whānau Ora* is an approach to delivering social services based on a Māori concept of wellbeing, which aims to have the various needs of a whānau met holistically.
- *whānaungatanga* – a broad kinship concept that acknowledges inter-connectedness between people and the environment, through whakapapa. It is from this inter-connectedness that specific obligations of care arise. Importantly, these duties are not just to direct kin; they can arise also through the inter-connectedness of all people in Māori cosmology.

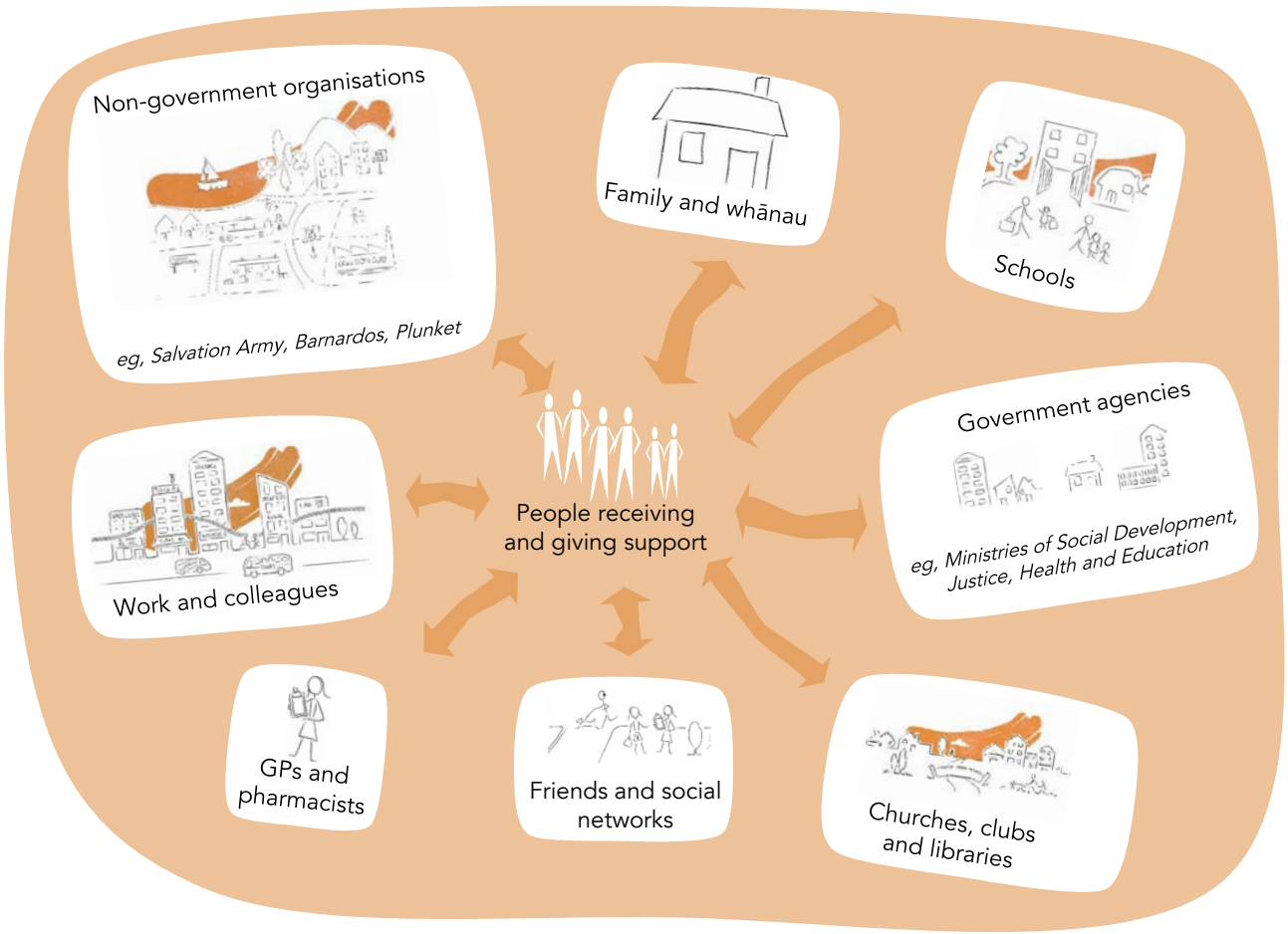
Overview

Social services help New Zealanders to live healthy, safe and fulfilling lives. They provide access to health services and education opportunities, and protect and support the most vulnerable. The quality of these services and their accessibility for those in need are crucial to the ongoing wellbeing of New Zealanders.

Social services cover a wide variety of different activities. The Government funds them with the aim of improving a set of outcomes that people value, such as better health, less crime, and more and better jobs.

Social services are only one influence among many that determine people's outcomes. The relationships between all the influences and the outcomes are complex and often not fully understood. Other important influences include family, friends and community, work and colleagues, and early physical and social experiences.

Figure 0.1 Elements of the social services system



This inquiry is about how to make New Zealand's government-funded social services more effective so as to improve people's lives and raise social wellbeing.

The inquiry has examined (among other things):

- the strengths and weaknesses of current approaches to commissioning and purchasing social services;
- the lessons learnt from recent initiatives and new approaches, in New Zealand and overseas;
- how social services can best target and help those with high needs and at risk of poor outcomes;
- how to improve outcomes through better coordination of services within and between government agencies and service providers;

- how to take advantage of emerging opportunities offered by existing and new datasets, new information technologies and data analytics to learn about the effectiveness of different services for different groups, and to ensure that this learning spreads and is taken up widely by service providers; and
- the institutional arrangements that would support smarter commissioning, purchasing and contracting of social services.

In the course of conducting this inquiry the Commission has been impressed with the hard work, perceptive thinking and commitment of the many people and organisations, both outside and within government, who help deliver social services to those in need.

The inquiry's purpose is not to critique the performance of government agencies and service providers, but rather to make recommendations that will improve the system that all parties work within. Getting the system to function effectively will free up time, energy and resources to improve outcomes.

The Commission has drawn evidence from many sources including:

- academic research, commissioned pieces of research, government reports and data;
- 134 submissions from different organisations and individuals including government agencies, not-for-profit (NFP) providers, for-profit (FP) providers and client groups;
- more than 100 face-to-face meetings with a wide cross-section of interested parties; and
- close engagement with the Ministry of Social Development (MSD) and the Ministry of Health to draw lessons from existing programmes.

The Commission has made 81 draft findings and 47 draft recommendations. Recommendations range from modest ways to improve commissioning and contracting to bold suggestions for changes in roles and responsibilities. At a time when the Government is strongly focused on more effective social services, the Commission believes this draft report will generate significant interest and welcomes submissions on it.

Social services in New Zealand

Central government spends around $34 billion a year on health, education and other social services. Most of this spending goes to universities, hospitals, schools and frontline departments, with the rest used to contract out services. For example, MSD is planning to spend 20% of its total expenditure on social services in 2014/2015 to pay for services that are contracted out.[3]

Social services are delivered by a mix of government, FP and NFP providers. History, population mix and geography have all influenced the landscape of service providers and funding arrangements under which they operate.

There have been numerous government reviews over the past 20 years that have identified remarkably consistent lists of issues, and proposed rather similar solutions. In light of this, the Commission has made a particular effort to identify the causes of problems rather than make proposals that simply tackle symptoms.

The sheer size and complexity of the social services system makes generalisations difficult. Even so, the Commission's broad observations are that the social services system has a number of positive attributes including:

- social services workers, including a significant number of volunteers, are highly committed to improving the lives of clients and are driven by a sense of civic responsibility;
- Governments, past and present, have shown a strong commitment to improving public services;

[3] This excludes income support and benefit payments.

- pockets of successful innovation exist in the use of data management and analytics;
- government agencies widely acknowledge the importance of integrating services and the need to do better; and
- government agencies are generally willing to launch trials and experiments.

The Commission has also observed a number of weaknesses in the social services system:

- existing institutions are not well placed to deal with the multiple and inter-dependent problems experienced by many of New Zealand's most vulnerable individuals and families;
- government agencies generally know too little about the services (or interventions) that work well and those that do not;
- evaluation of many social services is currently absent or of poor quality, or not given enough weight in subsequent decision making.
- providers face poor incentives to experiment, and to share and adopt innovations;
- clients often perceive government processes as confusing, overly directive, and unhelpful. For providers, government processes can appear wasteful and disconnected from the real-world problems that providers struggle with;
- services delivered by government agencies are often poorly coordinated;
- opportunities are missed for early intervention to avoid the escalation of problems;
- government agencies often tightly prescribe the activities of providers, making it difficult for providers to innovate or tailor services to the individual needs of clients; and
- clients are often feel disempowered by the manner in which social services are commissioned and delivered.

The Commission has also observed a large "stock" of existing social services that continue to be funded and run in much the same way over decades, with little improvement in performance. A flow of new initiatives attracts much attention but has little effect on the existing stock or on outcomes. This suggests the system is not good at evaluating programmes, or expanding those that offer high effectiveness and removing those that do not.

Diagnosing the causes of system weaknesses and finding ways to overcome them is crucial in view of pressures on the system such as population ageing, the increasing demand for services, rising social expectations and the rising costs of delivering some services.

New Zealand is not the only country facing these pressures. Governments around the world are grappling with ways of improving the outcomes from their large expenditures on social services. There is also much to be learnt from innovative approaches to social services being applied in New Zealand and elsewhere.

New ideas in New Zealand and elsewhere

New approaches in New Zealand and elsewhere have sought to improve social services. They are instructive because they tackle some of the issues and problems described above.

Some schemes use data in sophisticated ways to test the effectiveness of different services for different types of clients. This can lead to large gains in effectiveness. MSD's Investment approach is a good example.

Other schemes seek to empower clients and give them greater choice over which bundle of services best meets their needs, and who provides them. The new Australian National Disability Insurance Scheme allows

people with disabilities to choose a range of support to achieve their goals, within budgets determined by their level of need.

The Whānau Ora programme aims to empower families (whānau) to determine their own goals and choose a set of services and support to help achieve them. "Navigators" assist whānau to find the services and support they need.

Other new approaches emphasise sharpening incentives and stimulating innovation through some form of payment by results. Examples include social bonds and "contracting for outcomes", which leave the means of achieving the results up to the provider.

One lesson from these initiatives is that social service programmes that give clients an entitlement to a level of support and a choice over how to spend it prompt providers to be responsive and to innovate. Yet such programmes also create pressures to expand entitlements, increasing programme costs. Programme designers need to carefully consider how to control cost pressures in such initiatives.

Other broad lessons for successful implementation of substantial, new social service programmes are the need for a well-articulated vision of the destination, careful staging and trials, meaningful engagement with affected parties, and independent evaluation to guide future design and build support.

Assessing system performance and diagnosing its causes

Focusing on the *social services system* (rather than specific services, programmes or providers) allows a broader understanding of the institutions and processes that shape the outcomes achieved from government-funded services.

As noted, while there are positive aspects of performance, many weaknesses exist. Diagnosing the causes of these weaknesses is an important and necessary step towards improving the system.

The Commission considers a well-functioning social services system would:

- target public funds towards areas with the highest net benefits to society;
- match the services provided to the needs of clients;
- align incentives to improve the wellbeing of clients and those affected by their actions;
- ensure decision makers (at all levels) have adequate information to make choices;
- respond to changes in client needs and the external environment;
- meet public expectations of fairness and equity;
- be responsive to the aspirations and needs of Māori and Pasifika; and
- foster continuous experimentation, learning and improvement.

While many individual services succeed on one or more of these criteria, the system as a whole is under-performing.

No single factor can be pinpointed as the underlying cause of the system weaknesses observed by the Commission. Rather, these weaknesses are due to a combination of factors.

- Many agencies and providers lack clarity about the objectives of the system and their part in it.
- Few mechanisms exist to capture and analyse information on the impact and cost effectiveness of services.
- Many government institutions were created in a different era of public administration and are not set up to deal with the complexity of modern demands on government-funded social services.

- Previous attempts to reform the system have failed to address the underlying (institutional) causes of problems.
- Those with decision rights often lack the required information, incentive and capability to make decisions consistent with efficient and effective social services.
- Many contracts for social services are highly prescriptive, owing to traditional government accountability and delivery arrangements and aversion to political risk. This prescription works against innovation and responsiveness to client needs.
- Heavy reliance on letting contracts to a single successful provider (competition "for the market" as opposed to several providers competing to attract clients "in the market") disempowers clients by not giving them a choice of provider.
- Ambiguity often exists around whether government agencies are purchasing services that they wish to fully specify, or contributing to programmes originated by non-government providers.
- There is plenty of room to improve the purchasing and contracting of social services. But there are limits to the gains the government can achieve using the contracting-out model.
- Government agencies have been largely unsuccessful in recognising and spreading the lessons from existing services and new initiatives.
- Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the market is not performing as well as it could.
- The organisational cultures of providers and government agencies are often resistant to change.
- Political pressures make it difficult for agencies to re-allocate funding away from under-performing programmes and initiatives.

An understanding of these causes is essential to improve the effectiveness of social services. The challenge is to design a well-performing system that takes them into account. Two design areas of great importance are the institutional architecture of the system and how to commission social services.

Designing the institutional architecture

Governments have paid considerable attention over the years to developing programmes and initiatives aimed at specific social services or client groups. Relatively little attention has been paid to the design of the overall system within which social services are delivered. Current arrangements contribute to many of the observed weaknesses.

Institutional architecture refers to the government's high-level choices about the design of the social services system. The government organisations involved, their roles and authority, and the basis of their relationships with other system participants are all important design choices that can be varied. The onus is on the Government - acting on behalf of its citizens – to make these choices, and make them well.

Taking responsibility for institutional architecture is part of what the Commission is calling *system stewardship*. Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. This is why the role of system steward falls to it. Other parts of the role include setting standards, investing in data infrastructure, monitoring overall system performance, improving capability, and prompting change when it under-performs.

Two broad architectural designs apply to social services. These relate to *who* has the responsibility to design and commission services. A crucial consideration in choosing *who* is which party has the authority, information, capability and incentives to make and implement decisions that maximise social returns. The Two broad designs are:

- *Top-down control* means that primary decision-making power sits with the relevant minister or department head.
- *Decentralisation* transfers substantial decision-making power to semi-autonomous organisations with separate governance. It is used to varying degrees, particularly in health and education (eg, District Health Boards, school boards, university councils). *Social insurance* is a special case of decentralisation. It assigns both decision-making power and liability for future costs to an insurer. (The Accident Compensation Corporation (ACC) is perhaps the only New Zealand example.)

Top-down control of social services is common in New Zealand. To control risks, hold others accountable and maximise options to respond, governments often favour prescriptive service specifications and close, top-down control.

- This approach is a good match to some clients and some services, but a poor match where clients have multiple, complex service needs.
- Top-down control tends to dampen innovation, reduce coordination between agencies and limit flexible adaptation to client needs and local circumstances.
- In some cases, top-down control will be the appropriate option – largely for those services where state coercion is required (eg, statutory child protection). Where it remains the best option, the implementation of top-down control could be improved.

Decentralisation should improve on top-down control where delegated decision makers have better information and incentives to maximise overall social returns. Well-designed organisations at arm's length from ministers should face less intense political pressure to micro-manage for political reasons.

- Governments have recognised situations – both inside and outside social services – where top-down control leads to poor societal outcomes and delegated decision making to organisations with varying levels of independence. A powerful example is the Reserve Bank.
- Social services would be improved by greater and smarter use of delegation and devolution. Four variants exist based on geography, service area, community of interest and co-governance. Respective examples include District Health Boards (DHBs), Pharmac, Whānau Ora and the Te Hiku Social Accord.

Ideally, subsidiary organisations should face strong incentives to intervene early to reduce future costs, and so deliver better long-term outcomes for clients. Delegating to *social insurance* organisations could fulfil this ideal. Liability for future costs better aligns the interests of insurers and insured, which should improve resource allocation across time.

A one-size-fits-all architecture across social services is not a viable proposition. The need to accommodate services with highly varied characteristics serving clients with wide variation in needs means that a social services system is likely to comprise several different architectures.

As the system steward, government has responsibility for the "enabling environment" for the social services system. Government is the major funder of social services, and only Parliament, led by the government of the day, can legislate and assign regulatory powers.

Budget appropriations can be broadly specified and in principle this allows efficient cross-service allocation and service integration. However, Governments typically do not take advantage of this opportunity and instead make narrowly specified budget appropriations for social services, using a variety of bases, including departmental portfolio, issue, population group, geographical location and eligibility. This is one reason that attempts to devolve budget-allocation decisions within a top-down control architecture have had limited success.

Better commissioning of services

Commissioning is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. This report uses the term commissioning to emphasise that a wider range of skills and capabilities are required than suggested by the more commonly used terms *procurement* and *purchasing*, and that a wider range of options are available to commissioning organisations than contracting out and in-house delivery.

Examples of social service commissioning organisations are government departments such as MSD and the Ministry of Health, crown entities such as DHBs, and non-government bodies such as the Whānau Ora commissioning agencies.

Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices. They should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider market sustainability and interactions with other services.

The commissioning of social services is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way. Commissioning organisations should actively build the required skills, capability and knowledge base.

A key commissioning task is choosing an appropriate *service model*. The model should be chosen to match policy objectives, and the characteristics of the service and its intended clients. Considering a wide range of models increases the likelihood of a better match, and better service outcomes as a consequence.

This report explores seven conceptual service models. Each has strengths and weaknesses, and some models may only be applicable to relatively limited circumstances.

- *In-house provision* is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers.
- *Contracting out* is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients.
- *Managed markets* allow multiple providers to compete for market share. They can encourage investment and innovation, which are difficult to achieve in non-contestable systems.
- *Trust* models capitalise on the intrinsic motivation of provider employees and organisations. They require careful design to ensure quality is adequately monitored through peer monitoring or regulatory oversight.
- *Shared-goals* models appeal to intrinsic motivation of players and also pursue common ownership of problems and goals, and so encourage constructive and integrated problem solving and creative solutions. Shared goals models can be challenging to replicate.
- *Client-directed-budgets* models offer much when the client (or their representative) is best placed to make service consumption decisions. These models motivate providers to offer good value to clients, encourage innovation and empower service clients.
- *Voucher* models work by clients choosing among providers offering a bundle of services (such as a university or an early childhood education centre). Government funding flows to providers according to those choices.

Many of these models require a mental shift for commissioning organisations, from being in direct control to overseeing a set of services and enabling them to function well. This oversight includes ongoing monitoring of service performance, and re-visiting commissioning choices as necessary to improve performance.

Commissioning services on a service-by-service basis might be optimal for the specific services, but runs the risk of an inefficient and ineffective overall system. Important commissioning tasks include considering the needs of clients who require multiple services, and the appropriate grouping of services.

Funding practices

Government needs to clarify its objectives in funding services, and match the type of funding to those objectives. Legitimate options for funding include full funding, contributory funding, tied and untied grants, and no funding.

Government should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decisions. Government should fully fund those services where it desires full control over service specification.

Government appears to under-fund some contracts with non-government providers for the delivery of fully specified social services. Long-term under-funding has undesirable consequences. Payments should be set at a level that allows an efficient provider to make sustainable return on resources deployed, encouraging investment by existing providers and entry by new providers.

Creating a system that learns and innovates

Social services deal with many problems that are complex and are not susceptible to one-off, all-time solutions. The complexity and uncertainty about solutions place a premium on a system that learns, that finds solutions to problems and finds new ways to improve the return on investment in social services.

Key features of a system that learns are:

- trying a variety of new ways of doing things;
- tolerating trials that fail;
- dealing with failure quickly;
- identifying and selecting the variants that perform better; and
- spreading the uptake of these more successful variants.

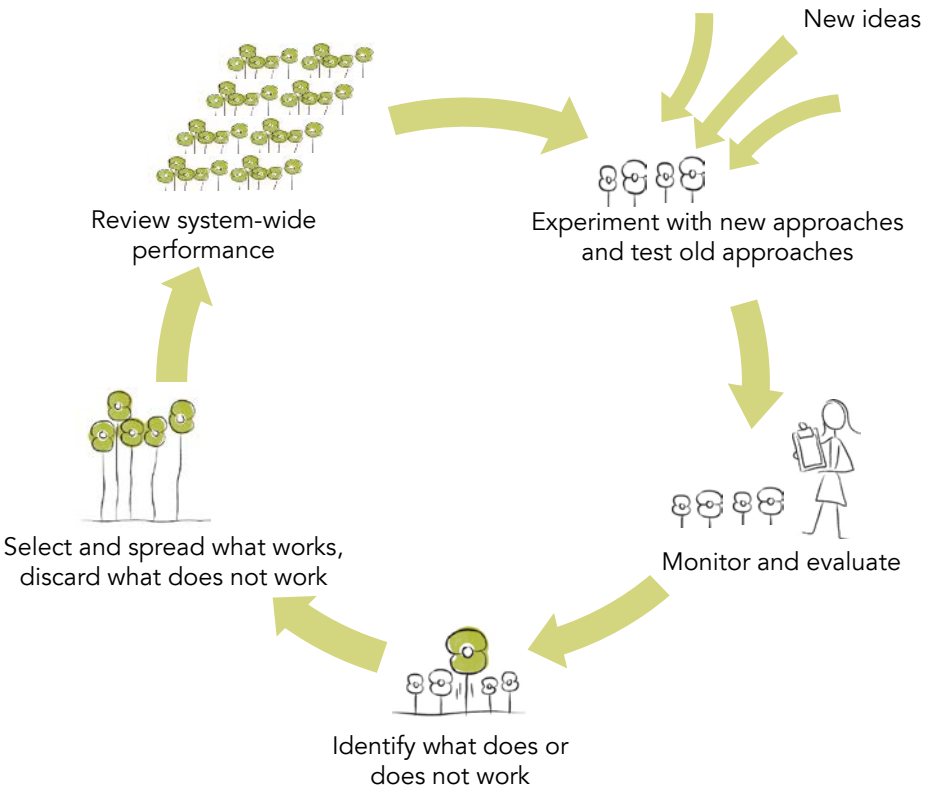
Different institutional architectures and service models have different strengths and weaknesses in trying and selecting new approaches. A centralised top-down architecture tends to generate fixed decisions about what works with too little tailoring to particular circumstances, and not enough bottom-up experimentation. A totally decentralised approach permits a lot of local experiments. But, in the absence of an effective selection mechanism across them, little pressure exists to select successful ones. New Zealand social services have examples of both problems.

A system that learns needs to have:

- clear goals around improving the effectiveness of social services in terms of better outcomes for both clients and taxpayers;
- strong incentives to find, and the flexibility to try, new ways of doing things;
- information flows that provide ongoing feedback to service users, providers, commissioning organisations and citizens about what is working; and
- the flexibility to take up successful innovations.

Choosing system architectures and service models that incorporate these features will increase learning and innovation in the social services system.

Figure 0.2 A system that learns



The role of government as the system steward importantly includes responsibility for ensuring that the social services system is an effective learning system. Government agencies are more likely to meet this challenge if they step back from being providers and procurers of services and focus on system-stewardship tasks: including clearly defining desired outcomes, promoting diverse approaches, monitoring them, and encouraging the spread of successful ones.

An effective learning system results in innovation – the introduction of new or significantly improved services or business processes, for the purposes of getting better outcomes from available resources.

The social services, with some exceptions, lag far behind many other services in adopting innovative productivity-enhancing business models. Modern information and communications technology (ICT) often plays an essential role in such models.

Innovation in social services is often small scale, local, dependent on a few committed individuals and incremental; but there are some examples of disruptive innovation that have dramatically changed prevailing business models. One example is the Canterbury DHB's development of its HealthPathways model which has now been adopted in several other healthcare systems in New Zealand and Australia.

Risk aversion in government agencies and in NFPs, overly prescriptive contracts, capital constraints and "bare-bones" funding partly explain low levels of innovation in the social services.

Improved commissioning and contracting have the potential to reduce some of the current barriers to innovation.

The current evidence-base for system-wide learning is weak and needs to be strengthened. In practice, conventional evaluation of many social services is absent, of poor quality or not given enough weight in subsequent decision making. Effort should focus on making available timely, shared evidence on what is working, for whom and through which service providers.

Initiatives under way may improve the quality of evaluation. These are to be welcomed, but new approaches are needed alongside that enable cost-effective monitoring and evaluation in real time across the system, using a wider range of information than is typically used in evaluations.

Leveraging data to improve social services

In an era of ICT and "big data", exciting opportunities exist to use data and data analytics to create a learning system that increases the effectiveness of social services. A client-centred data infrastructure and analytics could support a range of decentralised service models and provide better information to support decisions made by both commissioning organisations and the users and providers of social services.

Developments in data technology and analytics have transformed many service industries including banking, music, and publishing to name a few. The same developments have the potential to support new business models in social services that will bring substantial improvements in effectiveness.

A system that learns needs timely client-centred data and analytics to be available to decision makers at all points in the system. Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design and commission effective services, and to target resources to where they have the strongest effect on improving outcomes.

The Social Sector Board (the chief executives of the main government departments responsible for social services) has started a project to integrate social sector data, including setting common standards. In the Commission's view this work should include the design of institutions and processes to develop a comprehensive, wide-access, client-centred data infrastructure accessible to commissioning organisations, providers, users and researchers of social services. Better use of linked, cross-agency data could increase the scope, power and accuracy of the Government's investment approach to targeting social services as well as supporting better-integrated and tailored services for clients.

The New Zealand Data Futures Forum (NZDFF) has recommended a way to realise the potential benefits and mitigate the risks of sharing, linking and using data. The NZDFF recommended that the Government should establish an independent data council to act as the guardian of good practice in the sharing, linking and use of data in New Zealand.

The Government, and social services providers and users, should use the NZDFF recommendations to underpin their efforts to explore innovative approaches to social problems.

Government agencies should require providers that they contract with to capture information on their services in a consistent way. This will allow the patterns of individuals' use of services to be tracked across time, and for service outcomes and provider performance to be identified. Commissioning organisations, purchasers and providers of social services should use this information to continuously improve their decisions.

Sharing government-held data with third-party providers would support innovative services to solve social problems. Statistics New Zealand currently allows researchers access to de-identified personal data in its Integrated Data Infrastructure. This is desirable, but should be taken further. Subject to individual consent, government agencies should provide access to identifiable personal data to trusted third parties.

Social investment and insurance

"Prepare rather than repair." This simple and catchy idea is that well designed and targeted early interventions can reduce or eliminate adverse consequences at a later date. Ideally, individuals, their families and the social services system should act whenever they expect the resulting future benefits to exceed costs. But that will only happen if the relevant parties have the information and resources required, and face the right incentives.

The Government's Investment Approach is an attempt to increase the effectiveness of social services through better investment and targeting of investment. It is also about providing information and incentives to support early intervention, rather than waiting for a crisis.

The Investment Approach adopts investment and insurance tools to prioritise clients and services and selects interventions based on expected reduction in future welfare liability (FWL). This liability is a proxy

measure for future net social benefits. While the proxy is imperfect, the Investment Approach is a significant improvement on traditional approaches.

FWL identifies the people for whom the gains might be greatest, but provides no guidance on effective interventions. Reliable information on interventions, including their cost and effectiveness, is also essential when applying an Investment Approach.

There is scope to refine the Investment Approach and to apply it more widely within and across different government-funded social service areas.

A further extension is to assign the financial risks associated with poor social outcomes to organisations that are better placed than government to manage and reduce those risks, including by making timely investments. Such an "insurance approach" might offer strong incentives for timely and value-adding interventions.

Social insurance is an insurance scheme organised by the state, with compulsory membership and in which premiums are usually related to the ability to pay. The interests of social insurers such as the ACC can align better with the long-term wellbeing of individual New Zealanders than traditionally structured social service agencies. Social insurers have incentives to make timely and value-adding investments. For example, the ACC invests in a falls prevention programme to reduce the number of injuries and claims due to falls.

A system with national insurers, each responsible for a narrow service area (or condition type), could offer these benefits, but limits the potential for improved service integration and resource allocation across service areas.

A bolder approach would be to have competition between multiple insurers, each with a wide focus. All citizens would be enrolled with one of these insurers, which would receive premium payments from the government based on the characteristics of their enrolled members. Insurers would face the actual costs of future social services delivery for their members. A multiple-insurer system could be attractive to existing health and life insurers, or possibly to iwi.

Some significant challenges face the designers of such a system, including how to determine premiums and rules for moving between insurers.

Some non-government organisations have the potential to become social insurers for enrolled populations. A social insurance approach is worthy of further consideration.

Integrating services for better outcomes

A key challenge in delivering social services to people with multiple and inter-related needs is making sure the services are combined and tailored to best address those needs. Integrated services offer clients a coordinated mix of services that tackle multiple needs in a timely, convenient and effective way.

The fragmentation of social services to the detriment of clients with complex needs is a long-standing issue that has proved difficult to resolve, despite many attempts. Fragmented delivery is usually a symptom of problems in the way social services are commissioned and contracted for.

A key question is the optimal extent and form of integration. It is possible to have too much integration, or the wrong kind of integration. The risk is that integrating on one dimension opens gaps in another. For example, improving the integration between mental-health and employment services could come at the cost of making it more difficult to have good links between mental-health and domestic-violence services. Organisations need to weigh up costs and benefits when deciding the extent and type of integration. The government should seek the combination of integrated and single-focused services with the highest net benefit.

Institutional arrangements and service models can support integration in different ways.

- Provided it is done judiciously, government agencies exercising top-down control over services can merge government agencies, link contracting or service teams, or merge multiple contracts.

- When government devolves commissioning responsibilities to an organisation closer to the front-line, that organisation has greater scope to lead on integration by, for example, establishing multi-service teams and encouraging alliances.
- The "shared goals" service model empowers and facilitates providers to coordinate service delivery because they are working collaboratively and to agreed goals.
- Client-directed service models allow clients to select the best package of services for them. Essentially the client is the service integrator.

The Government should improve service integration by adopting a range of approaches, initiatives and strategies.

- Empower clients and families to have an effective influence on the way services are packaged.
- Pursue integration through changes to institutional and commissioning arrangements, rather than through ad-hoc integration initiatives. A common experience is governments undertaking multiple and overlapping integration initiatives, resulting in confusion, frustration and strain on scarce resources.
- Harness local motivations and local knowledge. Where clients, navigators or service providers have the information and incentives to integrate well, the Government should devolve responsibility to them on the extent and form of integration.
- Shift organisational culture across the social services system to be more client-centred and open to beneficial service-integration opportunities.
- Provide wider access to data, encourage (safe) data sharing, and use operational data to improve service integration.
- Make use of flexible budget processes to support integrated services.

Empowering clients and giving them more choice

As noted, commissioning organisations need to consider carefully the service model best suited to the characteristics of their intended clients and the services in question. In every model, choices are made about:

- *what* services to deliver;
- *who* will deliver the services;
- *when* the service will be delivered;
- *where* the service will be delivered; and
- *how* the service will be delivered.

Depending on the model, clients may have relatively little or relatively more control over these *core choices*.

The social services system will work best when people with the information, incentive, capability and authority make these decisions. In many cases, this will be the client or their representative.

There is good evidence that, for some types of social services, empowering clients to make core choices significantly improves their wellbeing. Yet such empowerment is rare in New Zealand.

Changes are needed if clients are to be empowered to make core choices and if the choices of clients are to influence service quality and the efficiency of the system.

Shifting the power balance from the organisations that commission and deliver social services to clients would achieve better outcomes. For this to occur, client choices need to influence the allocation of public

money to providers. Government departments must let go of the reins of central control to allow the necessary power shift.

Client choice is not an appropriate model for some services. These include services involving the coercive power of the state and where people experiencing psychological trauma or acute physical trauma receive services.

Where choice *is* appropriate, government agencies need to invest time and resources into designing and implementing mechanisms that will enable choice to operate effectively. In particular, clients must be able to make informed choices, and government agencies must give providers the flexibility to meet the diverse needs of clients.

Designing and implementing a practical and efficient choice mechanism requires a deep understanding of alternative design options. For example, to avoid providers picking off "easy" clients and avoiding more difficult cases, the Government-funded entitlement for each client should reflect the complexity of their individual needs. A particular instance is a more disabled person having a larger entitlement than a less disabled person because it is more costly to meet their needs.

Shifting to a client-directed service model will require a significant change in mindset for many officials and providers. Evidence shows it takes time (and resources) to learn how to work under new systems and to develop structures and processes that fit new ways of working.

Better purchasing and contracting

Government agencies have several thousand contracts for delivering social services with thousands of providers – both NFPs and FPs. Purchasing and contracting relate primarily to the contracting-out service model, and to an important but lesser extent to other models. The Commission anticipates that contracting out will continue to be an important service model, and sees significant scope for improvement.

Contracts involve a principal (in this case usually the government) and an agent who delivers an objective on behalf of the principal. Contracts cannot cover every contingency, the principal has incomplete information about the agent's performance, and there are incentives to shift risk and for other opportunistic behaviour. Because of these challenges, designing and managing contracts are not straightforward.

Varying sources of official guidance exist about how to design and administer contracts. Official guidance should be brought up-to-date in a single document. The Government should take steps to encourage use of the guidelines, including training relevant agencies and providers in their use.

Submitters to the inquiry (dominated by service providers) consider that contract design and administration need to improve. Reviews that preceded this inquiry reached the same conclusion.

To improve contracting practice, agencies should face new requirements to:

- undertake reasonable consultation with providers and clients during the pre-contract phase;
- report whether they have met tendering timelines;
- look for further opportunities to standardise contracts;
- develop a risk-management framework, in consultation with providers, that identifies risks and how best to allocate them;
- set the length of contracts with an eye to efficiency and risk management, and explain publicly how they did this;
- adopt a risk-based approach to monitoring contracts; and
- explore the potential for contracting for outcomes, but only apply it in suitable circumstances.

Government should help agencies to improve their capabilities to contract for outcomes, ideally with meaningful payments or other incentives conditional on results achieved.

The Māori dimension

The objectives Māori as a client group have for social services are broader than just effectiveness and efficiency – social services have an important role to play in "Māori succeeding as Māori". In this context, it includes Māori being able to exercise duties of care that arise from tikanga.

Māori are disproportionately represented in the client base of services that target and aim to help those at risk of poor outcomes. Although some other groups also have poor outcomes, the Treaty of Waitangi dimension adds weight to empowering Māori groups.

The development aspirations of Māori, the desire to improve the outcomes of whānau, and the tikanga around manaakitanga, whanaungatanga, and rangatiratanga mean that iwi and other Māori groups are obvious candidates for active participation in devolved commissioning and the delivery of social services.

Enabling greater rangatiratanga within social services inherently requires the Crown to step back from "deciding for" and often "doing for" Māori. Yet if the Crown steps back too far, or in the wrong way, then it risks leaving iwi to deliver the Crown's Article Three Treaty duties and this would be inappropriate. What matters is not so much whether any given activity is a kawanatanga or rangatiratanga responsibility, but instead who should hold mana whakahaere over that activity (translated variously as *the power to manage*, *governance* or *authority*) to achieve the objectives of both parties.

There are a number of steps involved in commissioning social services. In the examples considered by this inquiry, Māori groups differed in their wishes to be involved in some steps but not others. Although Māori are interested, in practice it may take some time for partnership models of commissioning to be fully realised. It is appropriate that Māori determine the pace and extent of this evolution.

The process of determining which Māori groups the Crown should partner with in social services should be an open one. It needs to allow for various claims to representation and influence from Māori organisations to be heard and considered fairly.

The process most commonly used to involve Māori groups in social services has been the Treaty settlement process. Yet the Treaty settlement process is too inflexible and too narrow to realise the potential for devolving commissioning to Māori effectively. A better process for social services should feature:

- the Government providing a standing opportunity to Māori groups to propose how they might like to be involved in commissioning;
- the nature of the proposed process coming from Māori, rather than being a model that Māori groups are co-opted into, or have imposed on them; and
- the Government placing reasonable constraints on what is possible.

Data development and analytics may hold some appeal for Māori to achieve greater involvement in commissioning, because reducing future welfare liability, though an unpalatable language for some, opens up new possibilities for negotiating funding transfers.

In common with other models that feature devolved commissioning and delivery of social services, challenging issues must be worked through to determine how to fund devolved organisations.

Implementing change

The Commission is recommending significant change: its proposed reforms are big. They include new roles and responsibilities, better commissioning, the use of client-directed and other devolved approaches, an expanded investment approach, and improved contracting. If implemented, they will disrupt current arrangements and interests. So it will be necessary to proceed with care, with strong and wise leadership, at

the right pace, the right degree of consultation, and the right sequencing. It will be important to learn about what works along the way and make appropriate adjustments.

The Commission recommends a shift from the current predominantly top-down approach to commissioning social services to more decentralised models. Government agencies would step back, yet still perform the vital role of system stewardship: setting system goals and standards, developing the data infrastructure, monitoring performance and overall progress against outcomes, overseeing evaluation, and prompting action when evidence indicates that performance is weak and new approaches would be more effective.

Responsibility for service design and delivery would increasingly shift towards the frontline and in some cases to the ultimate "customers". An important first step to bring about such a shift is for the Government to develop a credible *reform strategy*.

Implementation will require ministerial responsibility to set strategic direction and adjust it as needed in the light of experience. The Government should draw on advice and participation from both inside and outside the public sector to help develop and implement this major reform of social services.

To focus the effort of its agencies and to support ministers, the Government should establish an "Office of Social Services" within the government central agencies. The Office would need clear terms of reference that steer it towards favouring a strong customer focus. Its responsibilities would include:

- providing a strong, influential centre of thought leadership with a committed whole-of-system orientation;
- helping ministers to develop the overall reform strategy, and oversee its implementation;
- developing whole-of-system data and analysis;
- undertaking research on system-wide issues and providing advice to the Social Sector Board of chief executives and to the relevant ministers;
- evaluating the performance of the social services system;
- providing advice and design guidance for agencies engaged in commissioning; and
- promoting continuous improvement and capability development across the system.

Further measures that would help sustain reform and build in incentives for continuous improvement include:

- independent review of the implementation of the reform programme;
- rolling evaluations of existing social services programmes against specified criteria; and
- international benchmarking of social services, including their cost effectiveness.

Strategic themes

Organising the Commission's recommendations into themes provides a starting point for an implementation strategy. Seven themes provide an organising framework for sequencing reforms and setting priorities.

Theme 1: Improve system stewardship

The social services system as a whole currently lacks conscious oversight. Government is the only participant that can take on responsibility for system stewardship and for making considered decisions that shape the system.

Theme 2: Improve capability and tool development

Capability gaps cause systems to underperform. Transforming the delivery of social services will require new capabilities in areas such as commissioning and managing contracts, and data-analysis skills.

Theme 3: Make better use of data

Developments in data technology and analytics have transformed many private-sector service industries. They also have the ability to transform social services including by lowering the barriers to more devolved, yet more integrated, ways to deliver them. The report supports more and better use of data to measure and monitor the effectiveness of services for different types of clients, and the development of a comprehensive, wide-access, client-centred data infrastructure accessible to commissioning organisations, providers, service users and researchers.

Theme 4: Shape incentives through choice and transparency

Placing the power of choice in the hands of the consumers of social services would strengthen incentives on providers to continuously improve their services. Aided by a new wide-access and comprehensive data infrastructure, providers would have opportunities and incentives to work directly with clients and government agencies to come up with innovative, integrated and effective service packages.

Theme 5: Reshape roles and responsibilities

The Government should plan and implement new arrangements to enable a shift to more devolved commissioning, client empowerment, and the centre's uptake of conscious system stewardship. The new arrangements will involve big changes in roles and responsibilities, new funding mechanisms, and changes in laws and regulations.

Theme 6: Embed continuous improvement

Social services are complex and dynamic. Continued experimentation and learning is needed. Government agencies should explore initiatives to encourage innovation in social services. These could include innovation funds, prizes and in-house innovation labs. A shift to more contracts for outcomes could also encourage innovation by giving providers the freedom to experiment with different approaches.

Evaluation is important for continual improvement in the design and delivery of social services. Superu should develop and adopt a set of principles for good evaluation and provide guidance on them.

Theme 7: Encourage consultation

Consultation between the users and providers of government services, and between government agencies and non-government providers, is an essential feature of change programmes. Genuine consultation may require involving a range of parties in strategic planning or in governance. Iwi, providers, local interests such as local government, and businesses and private funders have told the inquiry that they see opportunities for change, and have ideas about how that can happen. These allies should be consulted about, and enrolled in, change.

The size of the prize

The Commission believes that substantial benefits would result from achieving the changes in social services described in this report. These benefits are at five levels.

Benefits to individual clients

The reforms set out in this report would improve the value that clients derive from the system by:

- providing them with pathways to help turn their lives around through well-evidenced effects on life satisfaction including from employment, good physical and psychological health, and more and better social connections;
- providing them access to services that are better matched to their individual circumstances; and
- empowering them through better information on, and choice of, services and service providers.

Benefits to service providers

For service providers, moving closer to a well-functioning system would mean greater clarity and certainty around government funding. It would mean less money spent on government processes and greater

flexibility to tailor services to meet the needs of clients. And it would mean more scope for innovation and greater rewards for innovation.

Benefits to government

For government social services agencies, moving closer to a well-functioning system would mean a better understanding of their role as system stewards, and greater ability to demonstrate the value that services are creating, to know the interventions that work and those that do not. For the Government, it would mean demonstrable achievements, reduced political risk from under-performing services, and more transparency around the relative returns from different uses of public money.

Benefits to the economy

Effective social services will not only improve the wellbeing of clients, but also reduce the likelihood that clients will remain on benefits for a prolonged period. This can amount to a significant fiscal saving in future years, which is important in light of increasing expectations of service quality and availability.

Policy and operational changes associated with the Government's Investment Approach in the 2013/2014 year resulted in an estimated reduction of $2.2 billion in future welfare liability. Further improvements of this substantial magnitude in other service areas are likely to be possible.

Many social services have a direct impact on the accumulation of human capital. Evidence shows that long-run human capital is an important driver of labour productivity, which in turn in is a key driver of long-run economic growth and incomes. Lifting overall student achievement to that of the top performers in the OECD would yield significant economic gains.

Benefits to wider society

Benefits to clients commonly spill over into society. For example, studies have repeatedly shown a strong correlation between education levels and lower crime rates and better health. Services that are effective in reducing mental illnesses, addictions and addictive behaviour, family violence and child abuse, and re-offending clearly have wider benefits in the form of a safer, healthier and happier society. By reducing New Zealand's "fat tail" of disadvantage and under-achievement, effective social services can promote a society that is both more egalitarian and more prosperous.

Overall

The reforms outlined in this report have the potential to improve the efficiency and effectiveness of New Zealand's social services system, in turn raising the wellbeing of users of social services and of citizens more generally. The complex nature of social services makes estimating the magnitude of these benefits difficult. Yet, the Commission's judgement, supported by New Zealand and international research, is that there are substantial economic and social gains to be had. Achieving reform will require political commitment and strong leadership, and a willingness of government to take on greater responsibility as a steward of the social services system.

1 About this inquiry

Key points

- Social services help New Zealanders to live healthy, safe and fulfilling lives. They provide access to health services and education opportunities, and protect and support the most vulnerable. The quality of these services and access to them are crucial to the ongoing wellbeing of New Zealanders.
- The government funds social services with the aim of improving outcomes that people value, such as better health, less crime, and more and better jobs.
- Social services are only one influence among many that determine outcomes. Other important influences include family, friends and community, work and colleagues, early physical and social experiences, and economic deprivation.
- This inquiry is about finding ways to improve individual and social wellbeing through more effective social services.
- The inquiry has examined (among other things):
  - the strengths and weaknesses of current approaches to commissioning and purchasing social services;
  - the lessons learnt from recent initiatives and new approaches, in New Zealand and overseas;
  - how social services can best target and help those with high needs and at high risk of poor outcomes;
  - how to improve outcomes through better coordination of services, within and between government agencies and service providers;
  - how to take advantage of emerging opportunities offered by existing and new datasets, new information technologies and data analytics to learn about the effectiveness of different services for different groups, and to spread this learning; and
  - the institutional arrangements that would support smarter commissioning, purchasing and contracting of social services.
- The Commission has been impressed with the hard work, perceptive thinking and commitment of the many people and organisations, outside and within government, who help deliver social services to those in need.
- The role of this inquiry is not to critique the performance of government agencies and service providers. Rather, its role is to make recommendations that will improve the system.
- In developing its draft findings and recommendations the Commission has drawn evidence from many sources, including research papers and extensive consultation. It received 134 submissions on its issues paper and has held more than 100 face-to-face meetings.
- The Commission has made 81 draft findings and 47 draft recommendations, and posed 8 questions. Recommendations range from modest ways to improve commissioning and contracting to bold suggestions for changes to roles and responsibilities. The Commission believes this draft report will generate plenty of interest and welcomes submissions.

1.1 What has the Commission been asked to do?

The Government has asked the Commission to carry out an inquiry into how to improve outcomes for New Zealanders from social services funded or otherwise supported by government. The inquiry's terms of reference instruct the Commission to focus on potential improvements in the ways that government agencies commission and purchase social services (see Box 1.1 for definitions). The inquiry aims to help agencies recognise how commissioning and purchasing influence the quality and effectiveness of social services, and to suggest measures agencies could take to promote better outcomes.

Box 1.1 **Definitions of terms used in the inquiry's terms of reference**

The Commission has adopted the following definitions of terms used in the inquiry's terms of reference.

Social services: Services dedicated to enhancing people's economic and social wellbeing by helping them lead more stable, healthy, self-sufficient and fulfilling lives. This inquiry is primarily concerned with social services that government provides, funds or otherwise supports.

Commissioning: A set of interrelated tasks that need to be undertaken to turn policy objectives into effective social services. Commissioning organisations should consider objectives, needs, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider market sustainability and interactions with other services; and choose an appropriate service model. (See Chapter 6).

Contestability: The characteristic of a market where the opportunity to supply the good or service is open to all qualified providers.

Purchasing: The purchasing process identifies and selects non-government providers and agrees terms of supply through a contract. It includes calling for expressions of interest to supply social services, evaluating proposals from potential providers, completing due diligence, negotiating the terms of the contract and awarding the contract.

Market for social services: A *market* is a setting in which parties voluntarily undertake exchanges. In the context of this inquiry, the *market for social services* refers to the provision of social services in exchange for payment. Funding could come from a government agency or another organisation (eg, a philanthropic trust). In some cases, clients partly or fully fund the service. The provision and purchase of social services meets the economic definition of a market, yet it has complex and distinctive features that make it different from simple markets.

Shape of the market: *Shape* includes the number, size, capability and geographic distribution of providers, and the mix of provider organisational forms (eg, commercial enterprises, not-for-profit organisations and charities).

Long-term sustainability of the market: The continued availability of providers with the capacity and capability to supply the level and quality of services required.

Outcome: The longer-term consequences of an intervention or programme in terms of the ends sought (eg, better health or reduced re-offending).

Result or intermediate outcome: an intermediate step contributing to an outcome, generally more easily measured in the short term than the outcome.

This inquiry investigates both *who* is best suited to make commissioning decisions and *how* to do a good job of commissioning. The latter includes the use by government agencies (both Crown entities and government departments) of contracts with non-government providers to deliver social services and how to choose among contracting, direct government provision and other service models. The key question is what

institutions and service models promote good outcomes for individuals, communities and the population as a whole?

The full terms of reference are at the front of this report.

What this inquiry includes

The inquiry examines (among other things):

- the strengths and weaknesses of current approaches to commissioning and purchasing social services;
- the lessons learnt from recent initiatives and new approaches, in New Zealand and overseas;
- how social services can best target and help those with high needs and at high risk of poor outcomes;
- how to improve outcomes through better coordination of services, within and between government agencies and service providers;
- how to take advantage of the emerging opportunities offered by big data and data analytics to learn about the effectiveness of different services for different groups, and to ensure that this learning spreads and is taken up widely by service providers; and
- the institutional arrangements that would support smarter commissioning, purchasing and contracting of social services.

What this inquiry does not include

The inquiry is about how to improve the effectiveness of social services through changes to institutional arrangements in the commissioning and purchasing of social services. It is not:

- an evaluation of specific social policies;
- a review of the level of public funds allocated to specific social services or to specific service providers;
- an assessment of the level at which welfare benefits are set;
- a quantitative assessment of the productivity of the New Zealand public sector; or
- an investigation of appropriate levels of public-sector expenditure or employment.

The Commission will not make recommendations on these matters as part of this inquiry.

1.2 What are social services?

Social services is a somewhat ambiguous term. Indeed, much government activity could be broadly termed a social service. Social services assist New Zealanders to live healthy, safe and fulfilling lives. They provide access to health services and education opportunities, and protect and support the most vulnerable. The quality of these services and their accessibility for those in need are crucial to the ongoing wellbeing of New Zealanders.

The reasons that the government funds many social services in New Zealand include political preferences, history, and economic benefits. The government funds social services to improve the wellbeing of New Zealanders and to fulfil expectations that are deeply rooted in New Zealand society. Social services contribute to these aims by providing:

- assistance to those with current or persistent needs;
- a safety net (or "insurance") for circumstances largely beyond a person's control;
- opportunities for individual development that enable people to achieve their potential; and

- protection of New Zealanders from, or at least minimising, the consequences of the anti-social behaviour of others.

A significant quantity of social services are not funded by the government but by charities, philanthropic donors and clients themselves. Of course, family members, friends and neighbours provide much care and support to individuals in need. It is important to remember that government-funded social services are only one influence among many that determine outcomes. The relationships between all these influences and outcomes are complex and often not fully understood. Powerful influences include family and friends, work and colleagues, early physical and social experiences, and economic deprivation.

Social services vary significantly

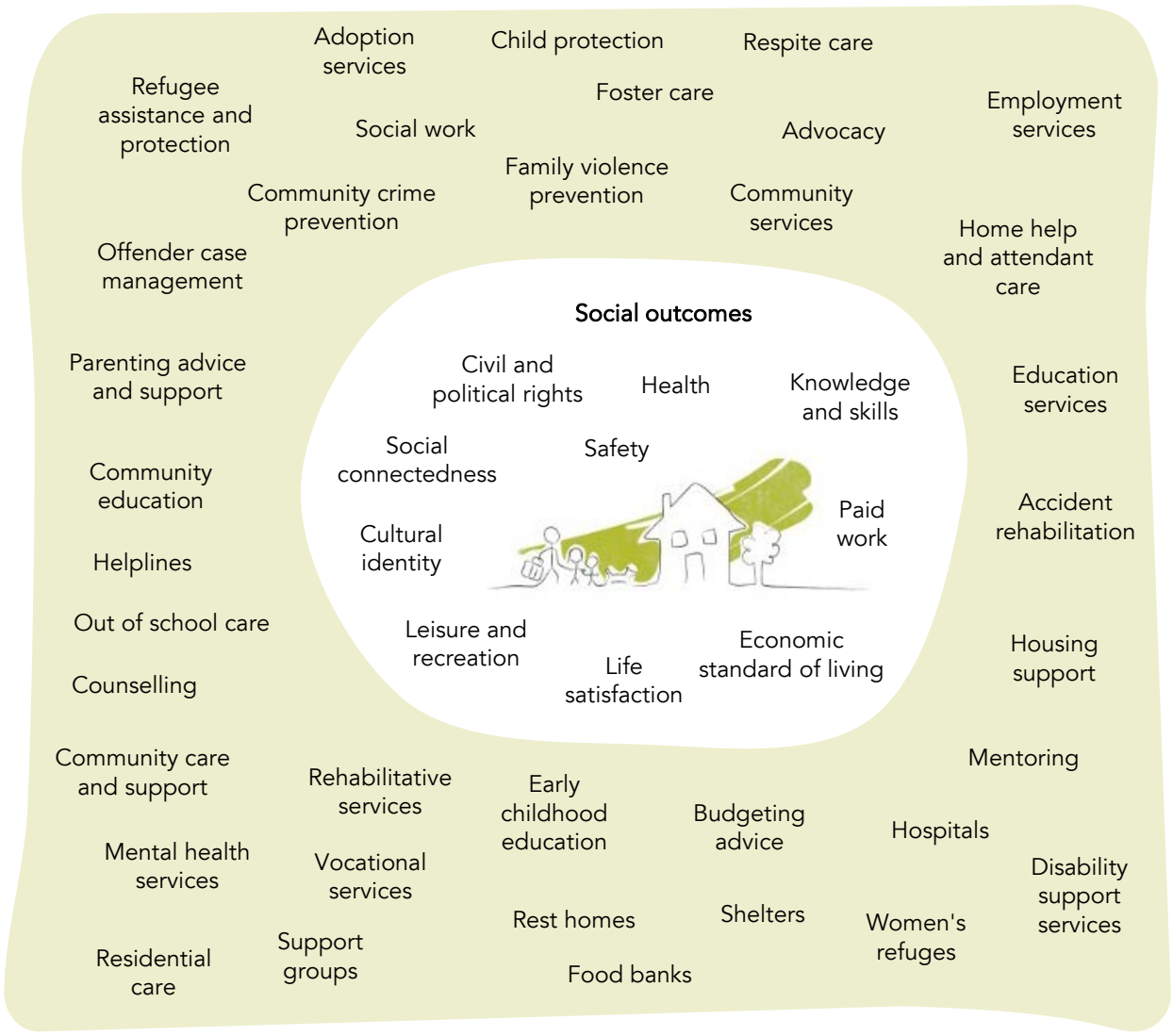
The Commission has taken a broad view of social services, because of the obvious interrelationships between health, education, social development, and indeed justice services. This places the Commission in a relatively unique position to look across those services. However, not all submitters were comfortable with such a broad definition that reaches well beyond the social services aimed at supporting the poor and vulnerable (Community Networks Aotearoa, sub. 31, p. 3)

The social services within the inquiry's scope vary widely. For example, specialised medical services differ markedly to services that support a released prisoner and help reduce re-offending rates. Also a critical distinction exists between services that are willingly consumed because the client wants the outcome (such as finding a job or receiving help in the home), and services where there is an element of coercion with an unwilling subject (such as a court-ordered programme to combat an addiction).

More broadly, social services could also be interpreted to include wider services that benefit New Zealanders through enhancing their participation in areas such as the arts, sport, recreation and the environment. Such services fall outside the scope of the inquiry.

Figure 1.1 depicts the wide variety of social services in New Zealand and some high-level outcomes that they contribute towards. Most of these services are fully or partly funded by the government and fall within the inquiry's scope.

Figure 1.1 The diversity of social services and the outcomes they support



People use social services in different ways throughout their lives

People use social services differently at different stages in their lives and as their circumstances change. Subsidies for health, education, and aged care have a component of income redistribution. Social services, working in conjunction with the tax and transfer system, have the effect of smoothing the effective income of individuals over their lifetimes and redistributing from higher to lower-income people.

Access to social services is largely universal. Yet because they are targeted to need, people facing social and economic disadvantage will tend to use social services more intensively.

1.3 The Commission's approach

The Commission's approach strongly emphasises engagement with providers, government agencies, researchers, clients and client advocates. In developing its draft findings and recommendations for this draft report, the Commission has drawn evidence from many sources including:

- more than 100 meetings with individuals and organisations;
- visits to four New Zealand regions, Australia and the United Kingdom;
- the 134 submissions received on its issues paper;
- government agency reports and data;
- extensive engagement with the Ministry of Social Development (MSD) and the Ministry of Health (MoH);

- commissioned research;
- a survey of social-service workers;
- previous inquiries into, and reviews of, social services;
- relevant academic and other research; and
- eight conferences on aspects of social service provision in New Zealand.

In addition, the Commission developed four case studies (presented as appendices B through E) to assist with the inquiry:

- employment services;
- Whānau Ora;
- services for people with disabilities; and
- home-based support of older people.

In the course of conducting this inquiry, the Commission has been impressed with the hard work, perceptive thinking and commitment of the many people and organisations, outside and within government, who help deliver social services to those in need.

The role of this inquiry is not to critique the performance of government agencies and service providers. Rather, the role is to make recommendations to improve the system that all parties work within. Ultimately, everyone has the same objective of improving the wellbeing of New Zealanders.

The Commission has taken a high-level systems approach. This of necessity has meant that many terms and concepts used in the chapters may seem remote from the front-line, daily experiences of providers and clients. This is not to imply that front-line realities are unimportant. Rather the high-level approach is taken in the belief that standing back is the best way to gain perspective and see what could be, and needs to be, changed. Ultimately this is in the interests of improving what happens at the frontline and, above all, improving individual-client and wider social outcomes.

The inquiry is not taking place in a vacuum – the Government is actively pursuing a range of programmes and initiatives to improve social services in line with its Better Public Services priority. The initiative to trial social bonds and the recently-announced modernising review of Child, Youth and Family are two examples. The Commission recognises this changing landscape and that social services is an area of great interest. It hopes that the results of its inquiry will make a significant and worthwhile contribution to public debate and policy thinking inside and outside of government.

The Commission has made 81 draft findings and 47 draft recommendations. It has also asked eight questions. Recommendations range from modest ways to improve commissioning and contracting to bold suggestions for institutional and role changes. The Commission believes this draft report will generate plenty of interest. The Commission welcomes submissions on this draft report.

1.4 Responses to the issues paper

The Commission received many and varied responses to the inquiry. A selection of these responses illustrates this range (Box 1.2).

Box 1.2 **Differing views on the inquiry issues paper**

…we welcome and endorse the generous description by the Productivity Commission of the goals and values of social policy in New Zealand in Chapter 1 of the Issues Paper. We welcome the acknowledgement that there is a broad consensus on what government funded social services should be providing… (Carers NZ, sub. 71, p. 1)

I am concerned that the assumption underlying this issues paper is that wellbeing is an isolated matter that can be achieved via a market economy. (Charlie Devenish, sub. 26, p. 1)

Pages 44 – 47 of the Issues Paper contain a very interesting and well written section in relation to social service providers, devolving decisions, and the tension between accountability and flexibility. The issues are accurately presented here and we are very pleased that the authors of the document have presented a balanced view of these tensions. (Hokianga Health Enterprise Trust, sub. 44, p. 2)

Generally there was dissatisfaction with the title [More effective social services]. There was an assumption that the title inferred that most social services were not effective. It was not clear that the efficiency mentioned was also about how Government worked in this space. There was a feeling that the title implied inefficiency in the sector as a broad issue. (Community Networks Aotearoa, sub. 31, p. 2)

MSD supports the goals and objectives of the Productivity Commission's Inquiry into More Effective Social Services and consider that the Issues paper does a good job portraying the social services landscape. (Ministry of Social Development, sub. 72, p. 6)

We believe that a number of the basic premises of this issues paper are flawed. Most importantly describing the sector as a "market" exposes the ideological framework which drives the underlying assumptions of this issues paper. We are concerned that this review is in reality another step towards creating opportunities for making profit from vulnerable people, rather than actually addressing the underlying causes of the problems being faced by individuals/families/whanau and communities. (Homebuilders Family Services North Rodney Inc., sub. 38, p. 1)

Reading the issues detailed in Chapter 5, Issues for the Inquiry, resonated with our experiences and concerns in regards to the changing contracting landscape. We hear similar concerns raised by our networks nationally and locally in both the disability and wider social service sector. (Community Care Trust, sub. 96, p. 1)

1.5 A well-functioning social services system

The goal of this inquiry is to find and recommend measures that will lead to a well-functioning social services system. But what does such a system look like?

The resources available for social services are finite. It is not possible for a society to provide every service at the maximum level of quality for any person who might request it. So allocating resources towards where they will have greatest effect (and away from where they are having minimal or even negative effects) increases effectiveness, and better promotes overall wellbeing.

Social services are funded and delivered by a complex system with many participants. A system that delivers expanded or improved services at the same cost (or, equivalently, the same services at lower cost) will promote wellbeing, all else being equal. The term *productivity* captures such efficiency improvements. Importantly, these improvements are about being more effective rather than working harder or accepting lower wages.

As Box 1.2 indicates, there are different, and sometimes competing, views about social services. In the interests of attempting to build as much common ground as possible about what a well-functioning social services system looks like, the following sections describe the salient features from the perspectives of different participants.

New Zealanders

New Zealand individuals and their families have multiple stakes in the social services system. As taxpayers, they want the system to deliver value from the tens of billions of dollars that the government spends each year.

They want social services to be available to meet their current or future needs. They want the services to provide effective care of the most vulnerable. Further, they want a system that protects them from, or at least minimises, the consequences of the anti-social behaviour of others.

Lastly, most if not all New Zealanders wish to participate in a cohesive society that provides opportunities, a sense of belonging, and protection for all its members.

Current clients of social services

Most of all, clients of social services want the services they require to be effective in dealing with their specific circumstances, and to assist them towards a healthy, safe, self-sufficient and fulfilling life.

In general, they want those services to be available in the place they live. They want clear information about the services available to them, and ideally a choice between providers of those services. They want a stable relationship with their provider. They want minimal bureaucracy in their dealings with social service providers and government agencies.

Clients want providers and agencies to cooperate and to deliver services seamlessly. However, many clients are wary of the degree of information-sharing that might better enable such cooperation.

Clients are often vulnerable, and want assurance that service providers are acting in their best interests.

Social service providers

Social service providers want to get on with the job of helping their clients. Some are driven by a desire to assist their fellow New Zealanders, some by a profit motive, and others by a mix of both. In any case, they want sufficient funding, and for it to be stable and predictable. They often see contestable funding as creating financial risk for their organisation and the risk of service disruption for their clients.

Providers often resent time and money spent on what they see as unnecessary bureaucracy in their dealings with government. They want government to do a good job of coordinating its own agencies and activities.

Many social service providers feel that they are closer to their clients and the communities in which they operate, and that they have a better understanding of their clients' needs than their funders. They want the flexibility to adapt their services to the specific needs of their clients and to better reflect the overall mission of their organisation.

Social service providers often draw on volunteers driven by a desire to help their fellow New Zealanders. Volunteers want their efforts to be valued and effective.

Government social service agencies

Government agencies directly provide and purchase social services. Agencies recognise that in many cases they lack the information, relationships and capability to directly deliver services, and so seek to purchase at least some services from providers.

Agencies want to understand which types of interventions are effective, and which types are less effective. They want to use this information to improve overall outcomes from the social services for which they are responsible.

Agencies want their commissioning and purchasing processes to be cost effective. They want to understand the performance of their contracted providers. Over time, they want to encourage the development and expansion of the better providers, and encourage the reform or exit of poor performers.

Agencies want to be good stewards of the resources under their control, and be able to account for their performance to ministers and to Parliament.

The government

The government is the agent of all New Zealanders collectively, and the closest thing to an institution representing "society" or "community" at the national level. It is accountable through Parliament for ensuring that public funds are used appropriately, and in an efficient and effective manner.

The government has specific responsibilities to every citizen and seeks to fulfil those responsibilities. Further, it seeks an efficient and effective social services system, reflecting in part other legitimate demands on its budget (eg, conservation management and transport infrastructure).

Recognising that the needs of social service clients span the boundaries of its agencies, the government seeks a high degree of inter-agency cooperation.

Specific ministers, and the government in general, are often blamed for the consequences of poor delivery of social services. So government seeks a system that minimises its political risk. This aim may at times conflict with the ability of the government to pursue efficiency and effectiveness in the social services system.

1.6 Guide to this report

This report is divided into three parts:

- **what the Commission has observed** – describes the social services landscape in New Zealand, its performance and the drivers of that performance; and also covers some new approaches tried internationally and within New Zealand;
- **what is needed for improvement** – gives the Commission's reasoning and conclusions on what needs to change to achieve a well-functioning social services system; and
- **making it happen** – suggests a path to implement the changes that the Commission recommends, and discusses the types and sizes of the achievable net benefits.

Figure 1.2 briefly describes the individual chapters and appendices in this report.

Figure 1.2 Guide to individual chapters and appendices

Part One – What the Commission has observed

2. Social services in New Zealand	Describes the social services landscape that the Commission has observed, paying particular attention to problem areas, historical influences and current pressures and trends.
3. New ideas in New Zealand and elsewhere	Overviews and illustrates emerging new approaches to social services commissioning and delivery both internationally and within New Zealand.
4. An assessment of the social services system	Analyses social services as a system and the institutional arrangements that shape outcomes. The chapter provides the Commission's assessment of the underlying causes of the observed performance of the system.

Part Two – What is needed for improvement

5. Institutional architecture		Sets out and explores the strengths and weaknesses of two broad institutional architectures that can be used to commission and deliver social services.
6. Commissioning		Explains and explores commissioning – the set of important interrelated tasks that need to be undertaken to turn policy objectives into effective social services.
7. A system that learns and innovates		Makes the case that improving social services requires a system that learns over time (including by trying a variety of new innovative approaches), selects what works, ditches what does not and expands successful approaches.
8. Leveraging data and analytics		Describes the opportunities increasingly offered by expanded data sets, new information technologies and data analytics to track the value add of services for different types of clients, and how this can greatly improve the return on investment. It explores ways to expand data sharing safely in order to increase innovation and effectiveness.
9. Social investment and insurance		Explains the Government's Investment Approach, and argues for it to be extended. It explains social insurance, using Australia's National Disability Insurance Scheme and ACC as examples.
10. Service integration		Explains how different types of service integration affect outcomes for clients, and why lack of integration is a common problem. Cites evidence of positive effects from efforts to integrate. Devolved, bottom-up approaches offer the most promise.
11. Choice and empowerment		Makes the case that greater devolution of choice and control to individual service users will produce better outcomes in many situations. The chapter explores the mechanisms and models that could empower service users, increase choice and spark innovation.
12. Better purchasing and contracting		Proposes ways to improve purchasing practices and the design and management of contracts between government agencies and non-government providers of social services.
13. The Māori dimension		Explores the inquiry's themes and findings from a Māori perspective including Māori concepts of respect and caring, Treaty obligations and what the Treaty means for partnership and devolution in social services. Also describes several current governance models of Māori-Crown collaboration on social services.

Part Three – Making it happen

14. Implementation		Describes a way forward to implement the significant changes that the Commission is recommending in institutional design, commissioning, the use of client-directed and other devolved approaches, an expanded investment approach, and improved contracting.
15. The size of the prize		Supports the case for change by providing indications of the size of the economic and social benefits achievable with system reform.

Appendices

A. Public consultation		Lists the people and organisations who met with the Commission or provided submissions to the inquiry's issues paper.
B. Employment services		Case study of New Zealand and Australian systems for delivering employment services. The systems differ: in New Zealand a government in-house provider delivers them; the Australian Government out-sources them using a managed market. New Zealand uses data and analytics in a sophisticated way to improve service effectiveness.
C. Whānau Ora		Case study of Whānau Ora as a relatively new approach to the commissioning and delivery of services, particularly to Māori and Pasifika families. Of interest is the emphasis on families determining their own goals and the means to achieve them, assisted by "navigators". Another feature is the use of non-government commissioning agencies.
D. Services for people with disabilities		Case study of the ways that the government commissions and delivers services for people with disabilities. The study examines the Enabling Good Lives trial and the Ministry of Health's Individualised Funding initiative as examples of client-directed budgets.
E. Home-based support for older people		Case study of services and support for home-based care of the aged, how well they work, the issue of service integration, and the lessons that can be drawn (eg, how home-based services can reduce the need for hospital admissions and residential care).
F. The economics of social service		Reviews the microeconomics literature and picks out those parts that throw light on the economics of social services. The parts include contracting under uncertainty and how different types of incentives affect service performance. While drawing on various perspectives and frameworks, the inquiry aims to be grounded in sound microeconomics.

Appendices B-F are available online at: www.productivity.govt.nz/inquiry-content/social-services

1.7 Next steps

Table 1.1 sets out the proposed timeline for the rest of the inquiry. The Commission, with the agreement of the Government, has deferred the original date for delivering the final report by two months to the end of August 2015. The expanded timeframe allows more time in light of the large interest in the inquiry.

Table 1.1 Inquiry timeline

Date	Milestone
28 April 2015	Release of draft report
May-June	Engagement on draft report
24 June	Due date for submissions on draft report
31 August	Final report to the Government

The Commission anticipates holding regional meetings and/or roundtables during June 2015.

Part One: What the Commission has observed

Part One of this draft inquiry report documents the Commission's observations of the social services landscape in New Zealand and how it has been performing (Chapter 2); describes some new approaches that have been tried internationally and within New Zealand (Chapter 3); and diagnoses the causes of the observed areas of under-performance (Chapter 4).

All three chapters may be of interest in their own right. Yet they are also important preparation for Part Two. The purpose of Part Two is to develop reform options for the social services system that are soundly based on the Part One findings about how the system currently works and the experience of the new approaches.

2 Social services in New Zealand

Key points

- Central government spends around $34 billion a year on health, education and other social services. Most of this spending goes to universities, hospitals, schools and frontline departments, with the rest used to purchase services from non-government. For example, 20% of the Ministry of Social Development's (MSD) 2014/15 social services budget is for contracted-out services.[4]
- A mix of government, for-profit and not-for-profit providers, delivers social services. History, population mix and geography have all influenced the landscape of service providers and the arrangements under which government funds services.
- Numerous government reviews over the past 20 years have identified remarkably consistent lists of issues, and proposed similarly consistent solutions.
- The Commission's broad observations are that the social services system has a number of positive attributes. These include a willingness in government agencies to improve the system, a highly committed workforce, pockets of successful innovation in the use of data management and analytics, and the wide acknowledgement within government of the need to improve agency coordination.
- Improving social outcomes will require that the following weaknesses in the current system be addressed:
  - existing institutions are not well placed to deal with multiple and inter-dependent problems encountered by many of New Zealand's most vulnerable individuals and families;
  - government agencies have little reliable information about which services and interventions work well, and those that do not;
  - transaction costs are generally higher than necessary;
  - government agencies delivering social services are often poorly coordinated;
  - tailoring services to the individual needs of clients is made difficult by tight central control;
  - non-government providers face poor incentives to innovate; and
  - there are missed opportunities for early intervention to avoid the escalation of problems.
- The Commission has observed that a large stock of existing social services continue to be funded and run in much the same way as in past decades, with little evaluation of their impact or cost effectiveness. A flow of new initiatives attracts much attention, but has little effect on the existing stock or on outcomes.
- Addressing weaknesses in the system is important in view of persistent poor social outcomes, increasing demand for services, and the rising costs of delivering services. New Zealand is not the only country facing these pressures, and there is much to learn from new approaches, domestically and abroad.

This chapter provides an overview of the social services system in New Zealand. It gives a brief history of government involvement in the provision of social services before presenting data on current levels of expenditure in the area. The chapter then looks more closely at the processes and institutions that shape

[4] Excluding income support and benefit payments.

the way government agencies deliver and fund social services, before outlining the Commission's observations on the strengths and weaknesses of the system.[5]

2.1 Improving wellbeing through social services

Social services aim to improve the wellbeing of clients by broadening access to the things in life they value (or by removing barriers to accessing these things). For example, a person may value having steady employment, living independently, being part of a close family unit and being free from prejudice and violence. Yet they experience barriers to obtaining these things. Barriers include, for example, poverty, ill health, disability, dysfunctional family arrangements, or poor access to education.

Some social services help people overcome (or reduce) these barriers and widen the set of possibilities open to them. For example, training services give people the skills needed to gain steady employment. Home-help services assist people to live independently. And family-support services help parents get through difficult times.

Other services seek to protect people from the actions of others. For example, women's refuges strive to protect women from domestic violence. And child-protection services aim to protect children from abuse and neglect. When actions cause harm to others, social services tend to require a coercive component as far as the perpetrator is concerned.

2.2 A brief history of social services in New Zealand

This section provides a brief overview of the evolving role of the state in providing and funding of social services in New Zealand from the time of intense European settlement.

Britain in the 19th century relied on a lively voluntary sector and mutual aid societies to fund and provide education, health, income support, and child support services. Parents and churches met most of the cost of education (West, 1996). The central bureaucracy of the state was small and there was "no question … of the state funding the voluntary sector" (Lewis, 1999, p. 15). Service availability, access and quality were patchy.

In contrast to Britain, New Zealand had limited philanthropic resources, and many settlers had no family networks to draw on for support (Easton, 2011). Church organisations provided some assistance to the poor during the early years of settlement, but, in general, assisted migration involved an implicit undertaking from the authorities (the New Zealand Company or the government) to help migrants during periods of need. As a result, New Zealand was an early adopter of state funded, state provided, social services.

Land acquired from Māori provided settlers with both a means of subsistence and a lure to migrate (Garlick, 2012; Easton, 2011). Yet, land was also central to the social fabric of whānau, hapū and iwi, and so the loss of land had an immediate and continuing harmful impact on Māori society.

The privations of the economic depression in the late 19th century, the First World War, and the Great Depression of the 1930s saw voluntary organisations provide more social services. Patriotic societies formed to support returned soldiers and their dependants. Charitable organisations also emerged to help the influx of refugees from Europe. And church groups expanded their services to support the unemployed and destitute.

Yet, the sheer scale of these events stretched the capacity of families and voluntary organisations, leading to widespread calls for greater involvement of the state and the subsequent expansion of state-funded services (Tennant et al., 2008).

The 1950s brought greater awareness of the opportunities to improve social outcomes for segments of the New Zealand population. This saw the expansion of not-for-profit (NFP) service providers and the emergence of new community organisations such as IHC and Marriage Guidance. Government supported

[5] This report uses the term *agencies* to refer government departments, ministries and Crown entities involved in the provision of social services.

these and similar social services through grants, training, and support for rent and office costs. These providers gradually became more and more dependent on government funding to deliver social services.

The 1950s also saw many Māori migrate to urban areas, attracted by employment opportunities. Later generations born in the urban environment sometimes had weaker ties with whānau and their traditional support networks.

The full employment economy of the 1950s and early 1960s gave way to a period of economic and social stress and a greater focus on efficiency in public spending. The 1970s saw the strengthening of the Māori political movement and demands for Māori self-determination. This led to a new focus on the relationship between Māori and the Crown, processes to settle Treaty of Waitangi claims, and new forms of social services provision designed, governed and operated by Māori. Box 2.1 provides a discussion on the link between social services and Treaty duties.

By the mid-1980s government had turned to non-government organisations to play a greater role in the delivery of social services. The availability of government grants and contracts provided opportunities for small community-based organisations to expand. Many marae-based and urban Māori organisations, such as the Manukau Urban Māori Authority, managed government training programmes and other employment initiatives.

Public sector reforms in the early 1990s saw an increase in the use of tendering for social services contracts and a push for greater accountability and efficiency in public spending. A greater use of tendering provided additional opportunities for non-government providers to attract government funding. State support for NFPs shifted from being predominately grant-based funding to contract-based funding. Many contracts included tightly specified services and reporting obligations. The tight specification of contracts often limited the flexibility of NFPs to provider services more aligned with their own vision or philosophy (Garlick, 2012).

Box 2.1 **Social services and the Waitangi Treaty duties**

The Waitangi Tribunal has not yet determined, through its inquiries, the application of the Waitangi Treaty's Article Two to social policy. Some inquiry participants had views on how Article Two is relevant to the delivery of social services.

The principle of active protection of Māori Interests by the Crown arises from Article Two. Failure to provide this active protection, leading to loss of tāonga (including natural resources and culture) is the basis for much of the redress through the Treaty settlement process. But active protection is also a forward-looking duty, and may include Māori interests in their own development (both social and economic). In the Māori version of the Treaty, Article Two also guarantees the protection of tino rangatiratanga, commonly translated as self-determination. The ability of Māori to determine their own social and economic development is therefore sometimes couched as a Treaty right under Article Two.

Article Three requires that Māori receive equal rights and privileges. In this case Article Three has been seen to create duties on the Crown to provide equal access to services, and consideration for further assistance where poor outcomes or potential opportunities warrant it. The debate around Article Three mirrors the debate about "equality" in New Zealand generally – does it refer to equality of opportunity, or equality of outcome? There is no clear path through that debate.

Social services providers sometimes pick up the principles of the Treaty to inform their own governance structures and work practices. For example:

> Te Tiriti o Waitangi is essentially about relationships. Some of these relationships are expressed in law, but many rely upon moral and ethical considerations for their effectiveness. In this regard, the health sector has been a leader in "Treaty-based relationships." Relationships between ALT [Alliance Leadership Team] members are predicated on engaging in respectful partnerships, equitable resource distribution and social justice, enabling full Māori participation [in] Māori and

> New Zealand society and the active protection of Māori rights as confirmed by the Treaty. (Te Tai Tokerau Alliance for Health, 2012, p. 2)

Alternatively, the Treaty can be seen as mediating the relationship between kaupapa Māori providers and "mainstream" providers:

> Government has a role in facilitating non Māori mainstream providers who operate as respectful and responsive Treaty partners to work alongside Māori providers and Iwi in the support of Māori self-determination and aspirations. (Relationships Aotearoa, sub. 56, p. 6)

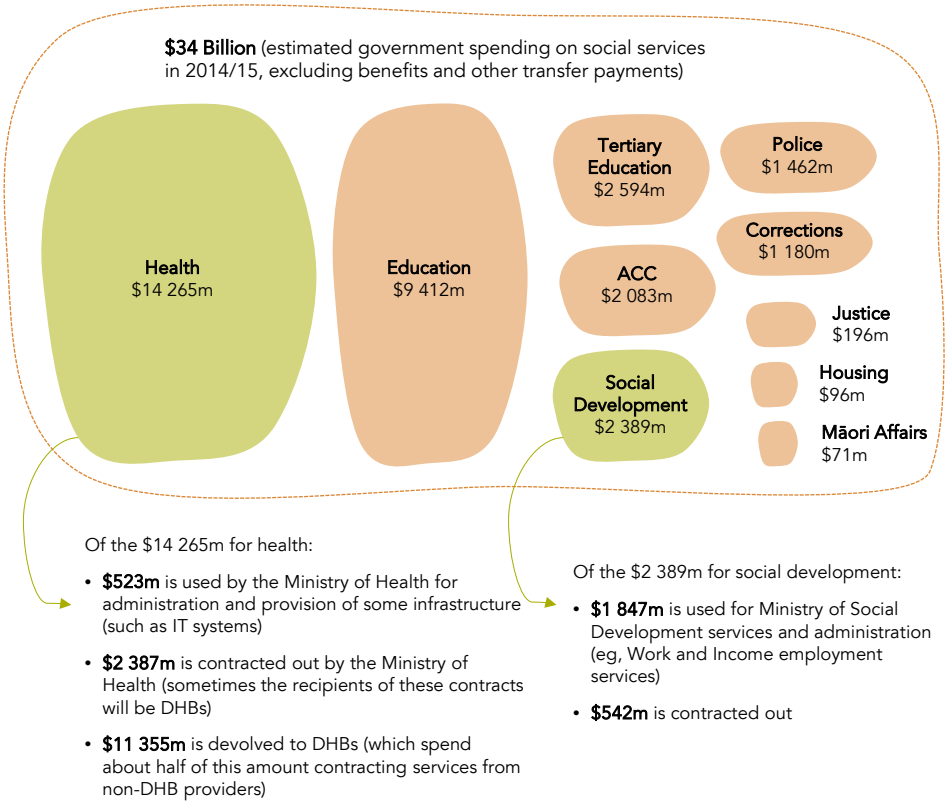
Building on the Treaty relationship, and particularly increasing the ability of iwi and Māori to exercise greater control (rangatiratanga) of what and how social services are delivered, is an aspiration that would require making changes in the social services system.

2.3 Government expenditure on social services

Central government spends around $34 billion a year on health, education and other social services. Most of this spending is on services provided directly by Crown entities, such as schools, universities and District Health Boards (DHBs). Government agencies use the rest to provide services directly or to pay non-government providers for supplying services.

The Commission has found no consolidated data on government purchases of social services from non-government providers. However, 20% of MSD's 2014/2015 social services budget is for contracted-out services.[6] Approximately 80% of Vote Health expenditure on social services was allocated to DHBs in 2014/2015. Around 17% of Vote Health is used by the Ministry of Health to contract out services. Some of these contracts are with DHBs (Figure 2.1).

Figure 2.1 Estimated government expenditure on social services for 2014/2015

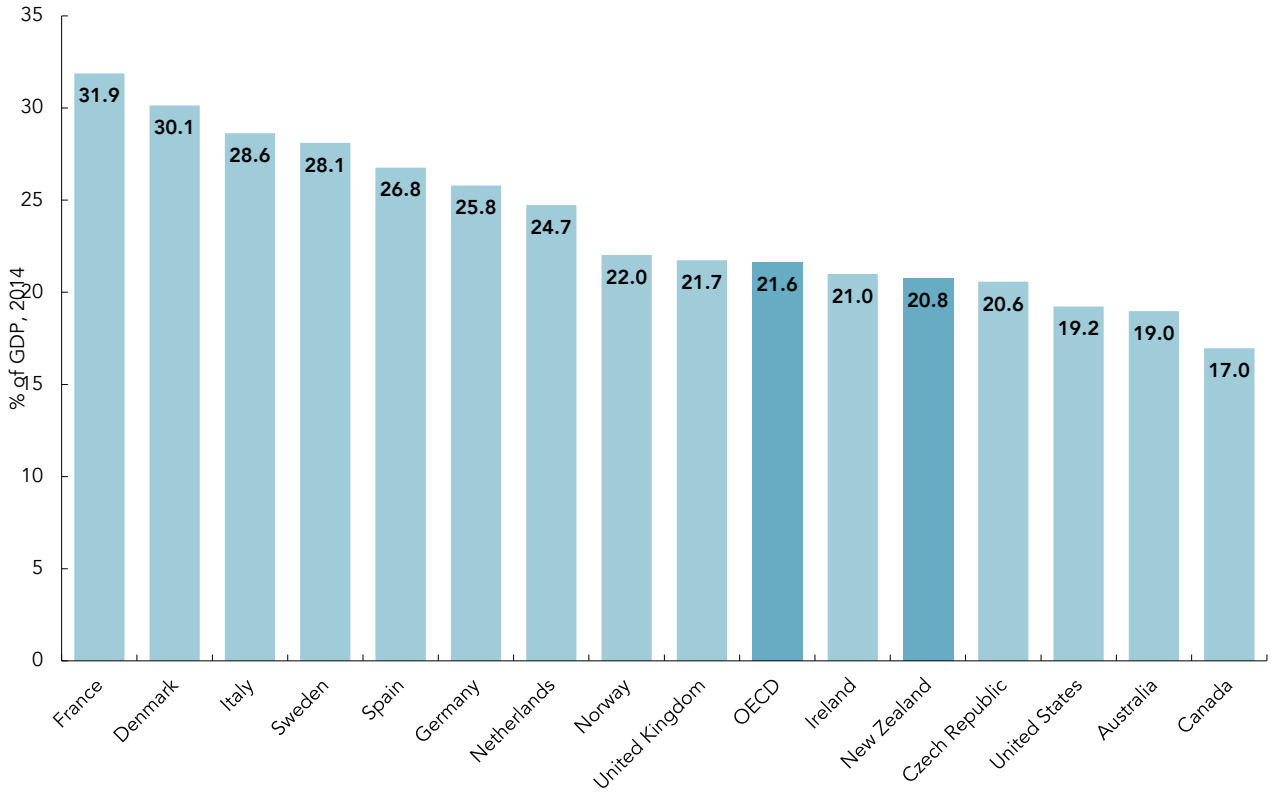


Source: Budget 2014 data; Productivity Commission.

[6] Excluding income support and benefit payments.

According to OECD data, government social spending in New Zealand, as a percentage of gross domestic product (GDP), is close to the OECD average, and similar to commonly used comparator countries such as the United Kingdom and Australia (Figure 2.2).

Figure 2.2 Public social spending as a percentage of Gross Domestic Product, 2014



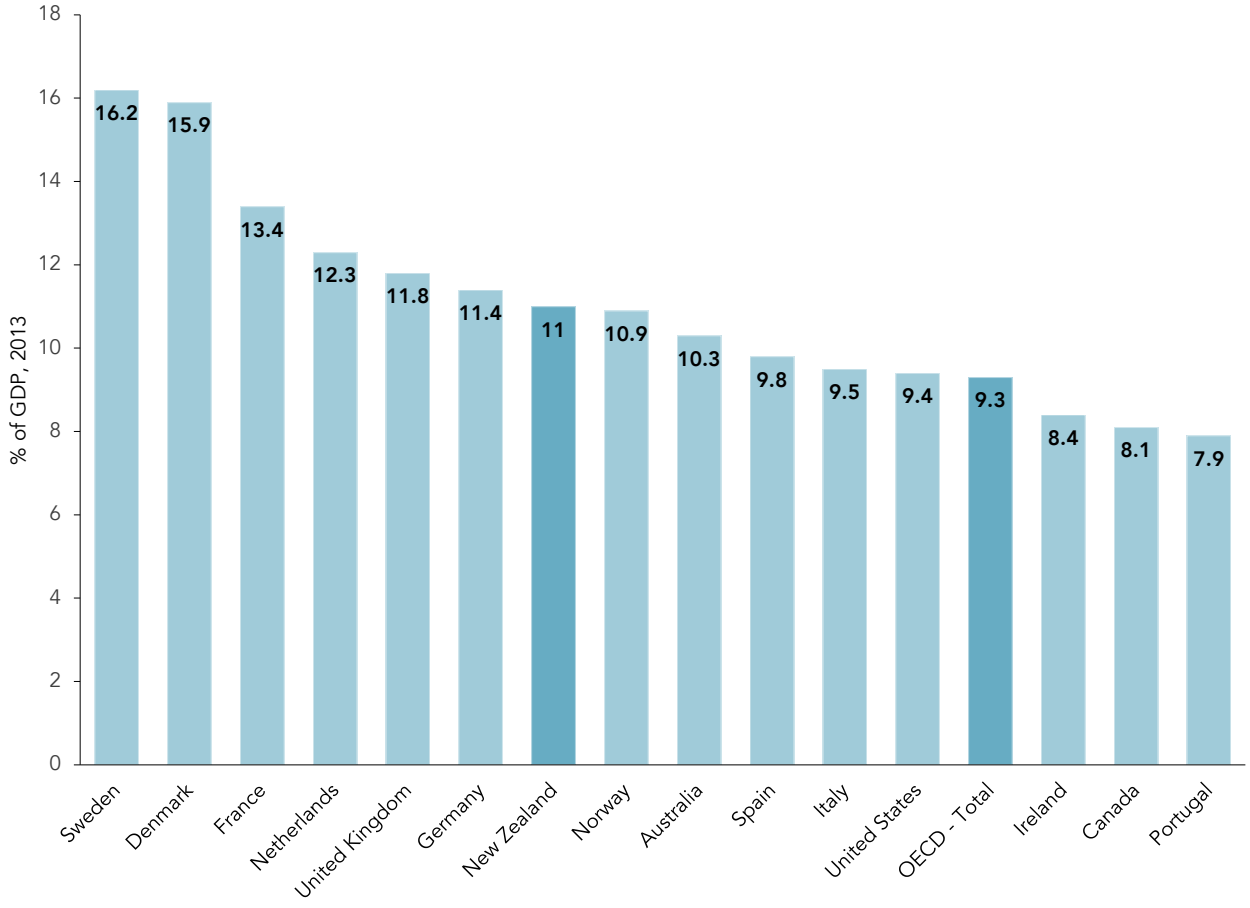
Source: OECD Social Expenditure Database (n.d.).

Total public spending includes benefit payments as well as expenditure on services. Benefit payments are outside the Commission's terms of reference. Figure 2.3 presents OECD data on government expenditure excluding benefits payments (referred to in the data as "benefits in kind").[7] The Figure illustrates that expenditure in New Zealand, as a percentage of GDP, was higher than the OECD average in 2013.[8] Government expenditure per capita was also higher than comparator countries such as Australia and Canada, but was lower than the United Kingdom.

[7] "Benefits in kind" are services received by citizens and paid for by the government (such as health and education services) as opposed to benefit payments in the form of cash transfers to residents.

[8] 2013 is the latest year for which data is available for all countries.

Figure 2.3 Social expenditure on benefits in kind as a percentage of Gross Domestic Product, 2013



Source: OECD Social Expenditure Database (n.d.).

F2.1 As a percentage of GDP, public expenditure on social services is currently higher in New Zealand than the OECD average. Expenditure is also higher than common comparator countries such as Australia and Canada, but lower than the United Kingdom.

The state sector is the largest social services employer in New Zealand, employing almost 165 000 workers in education and health alone (SSC, 2014).

The Commission used the Charities Register to gain an insight into the magnitude of government purchases of social services from NFPs. While not all NFPs are charities, and some NFP have "for-profit" activities (eg, "thrift shops"), the Register has the best available information.

The Charities Register shows government funding for charitable social services providers was approximately $3.3 billion in 2013. Data from the register for 2013 is summarised in Figure 2.4.

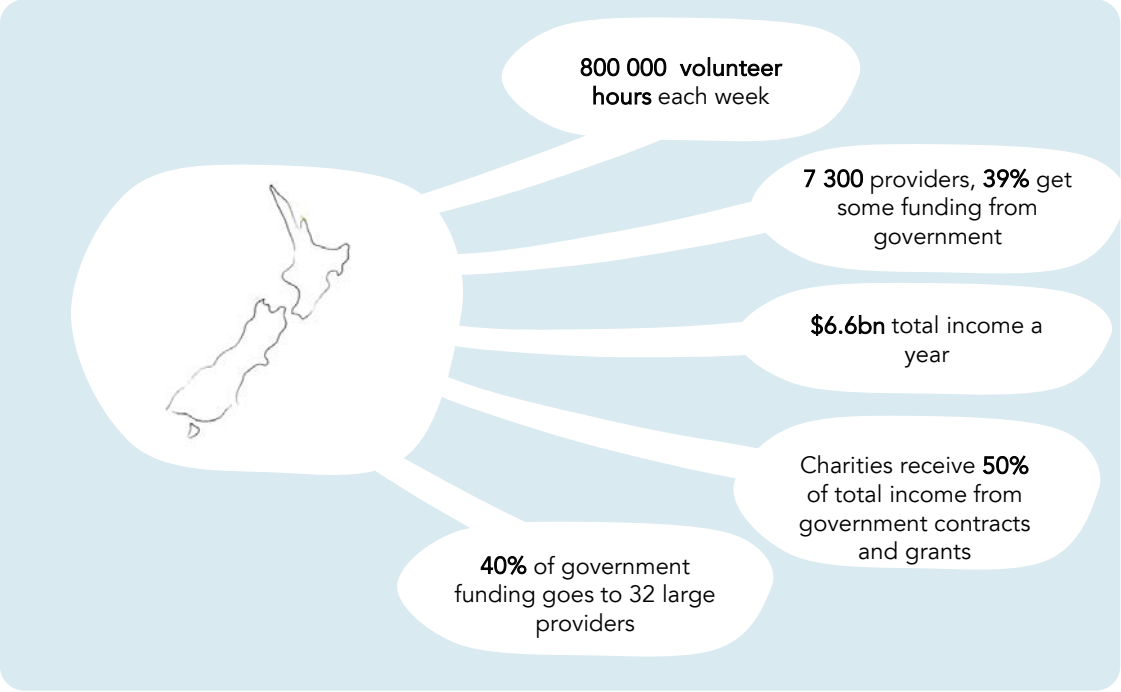
In addition to direct funding, the government indirectly supports charities by providing donors with tax credits. In 2010, donor tax credits amounted to $195 million. Approximately $45 million of this was for donations to charities providing social services.

The Charities Register also shows that, in total, charities delivering social services get around 50% of their income from non-government sources.[9] This is a mix of service trading income, donations, grants and other sources. Many non-profit organisations use volunteers to provide social services. Volunteers contributed

[9] The focus of the inquiry is social services funded by government. Social services funded by non-government sources are of interest to enable comparisons and provide context.

800 000 hours a week in 2013 to charities delivering social services. This represents an input of around $600 million a year if costed at the minimum wage.

Figure 2.4 Charity service providers, 2013



Source: Charities Register.

2.4 The social services system

This inquiry often focuses on the totality of social services as a system (rather than specific services, programmes or providers). This allows a broader understanding of the institutions and processes that shape the outcomes achieved from government-funded services.

The totality of social services form a complex system of organisations, institutions and relationships. Government is a large, but by no means the only, element of this system. Other important elements include non-government providers, philanthropic organisations, volunteers, family/whānau and community-based bodies such as churches. These elements play an important role in funding, coordinating and delivering services, often independent of government involvement (Figure 2.5).

For example, government support for older people living at home is only one of a range of possible sources of assistance. Many older people organise and fund their own support. Family members help one another around the home. Friends and neighbours provide support and company, "checking in" to see that everything is okay. Community organisations and volunteers provide services not funded by government. Although government support can be important, especially for very frail older people or people with few family and friends, it is only part of the picture.[10]

These broader networks of support often play a strong role in achieving positive client outcomes. For instance, Duncan (2013) found that 86% of the outcomes experienced by people recovering from psychological conditions are attributable to "the client's life circumstances" (p. 4).

The submission from Barnardos also highlighted the importance of broader networks of support.

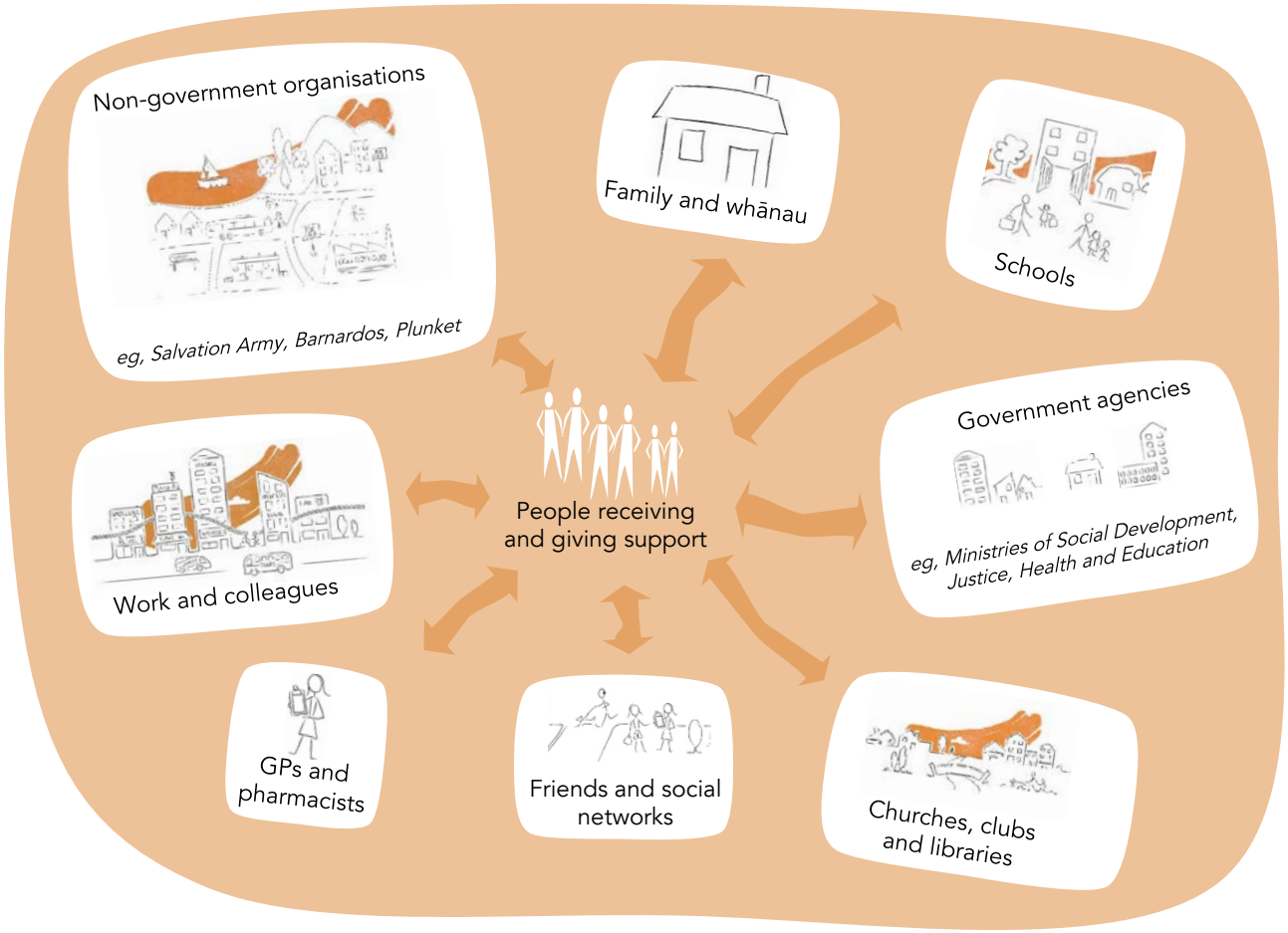
> It may be useful to consider the following analogy. For someone to recover from heart disease they are likely to need highly skilled and focused attention from surgeons, dieticians, physiotherapists and pharmacists. Without this specialist care they may well die. However in order to sustain their health they are also going to need a partner that cooks healthier food, friends that encourage them to exercise, a local chemist that notices when they don't come in and/or are getting the wrong medications, a GP

[10] Appendix E provides a case study on home-based support of older people.

who is accessible and has time to listen to them, relationships (to family, whānau church, work, marae) that gives them a sense of purpose and so on. It is not the role of the surgeon or physiotherapist to make sure that this person has supportive relationships and a sense of purpose. However, if the system of specialist medical intervention has no acknowledgement or support for the total picture of care that is needed then there is a high chance that this person will receive expensive medical treatment that makes little difference to their long term health and wellbeing.

The same analogy holds true for families that are trying to deal with complex parenting problems, chaotic lives or issues of family violence. Seeing the whole picture matters. (sub. 12, p. 6)

Figure 2.5 Some elements of the social services system



The history of social services in New Zealand illustrates that the line between the role of the state and the role of these broader networks of support has changed through time. Changes have occurred in response to external shocks (wars, depressions) and changing views of where, when and how the state should be involved in delivering social services.

This inquiry does not try to establish the "right" balance between government support and support provided by community networks.

Rather, the inquiry is concerned with identifying areas where improvements to government institutions, processes and capability would improve the outcomes achieved by publically funded social services. The next section provides an overview of some of these processes.

Social services and the machinery of government

"Machinery of government" is a metaphor for the structures and administrative processes that determine the form, functions, management, operation and governance of government agencies.

Like most government expenditure, commissioning and funding of services take place within the context of the machinery of government. Generally speaking, the process is as noted below.

1. The public, ministers or officials identify the need for a social service.

2. Officials advise ministers on how to address the need. Ministers consider the advice of officials and propose a programme and budget to Cabinet.

3. Cabinet approves the proposal. If an existing appropriation covers the programme, the responsible minister instructs their support agency to implement it. If the programme cannot be funded under an existing appropriation, it is added to the Annual Appropriations Bill.

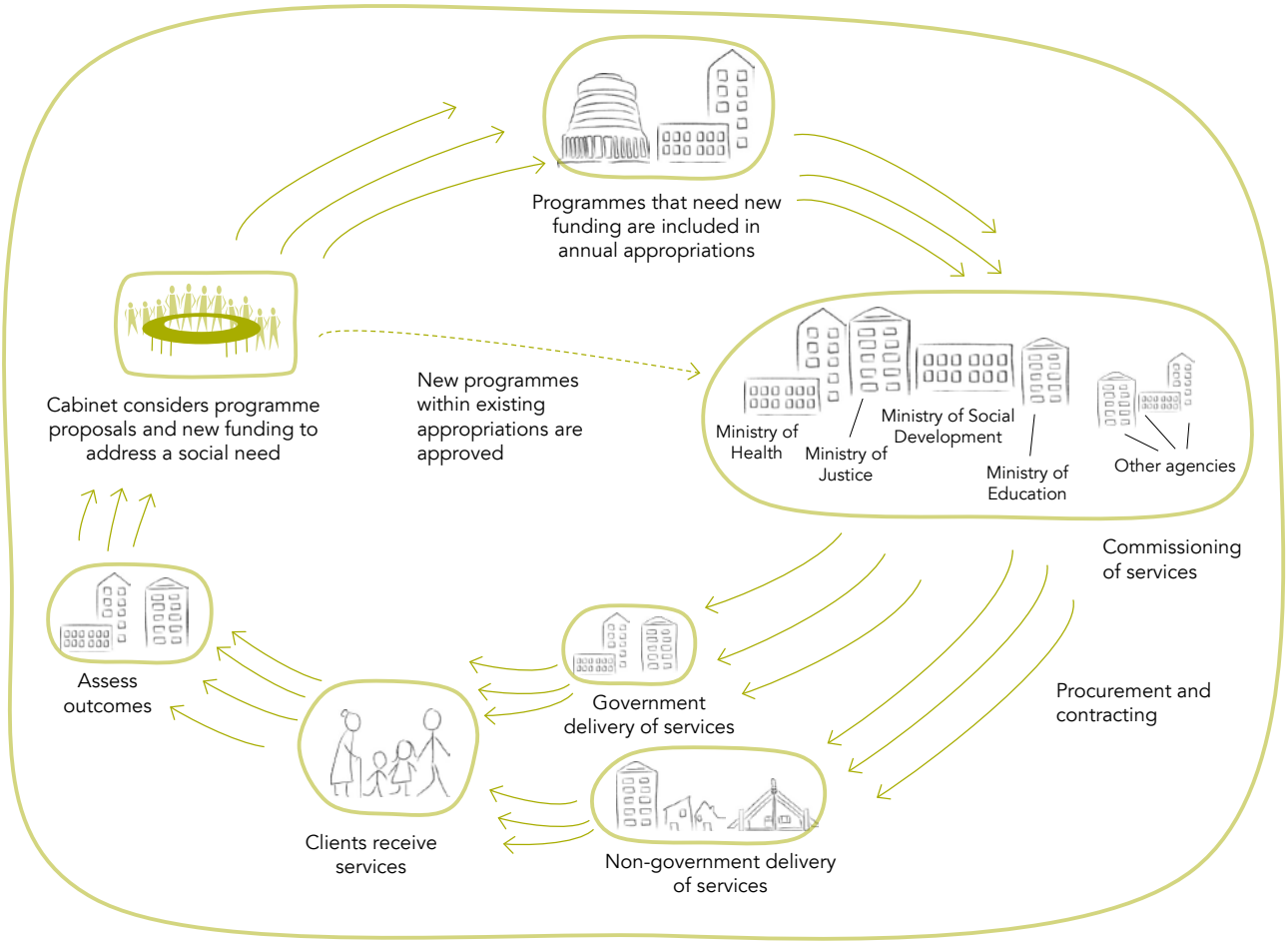
4. Parliament authorises money for the programme (if required) and ministers allocate responsibility for its implementation to a government agency.

5. A government agency or non-government provider delivers the service.

6. Ideally, government agencies evaluate the outcomes of the expenditure and feed the lessons learnt back into the process.

Every step of this process is subject to legislative and operational requirements (such as Cabinet Directives and Treasury Instructions). These institutional "rules of the game" are designed to achieve effective democratic government through placing boundaries around the power of politicians and government officials and by establishing strict lines of budget and political accountability. Figure 2.6 illustrates the process.

Figure 2.6 Government funding and commissioning process



Identifying the need for social services and policy advice to ministers

Government funds social services in response to an identified social need. For many social services, the need for government funding is deeply rooted in people's sense of fairness and equity, and expectations about the role of the state in providing a social safety net. Examples include the provision of universal healthcare and education.

As part of the annual budget process, ministers (supported by officials) estimate how much public funding the government will need in order to provide services. They also decide the programmes through which

agencies deliver services. Ministers then forward their proposal for expenditure to Cabinet as part of the annual budget cycle.

New programmes that are funded within existing agency budgets may also require Cabinet approval. For example, the Cabinet Manual states that ministers must send "significant policy issues" and "controversial matters" to Cabinet (Cabinet Office, 2008, paragraph 5.11).

Cabinet consideration and approval

Cabinet consideration involves the responsible minister submitting papers outlining the proposed initiative or funding proposal. Before going to Cabinet, most proposals are discussed in detail by one or more Cabinet Committees. The Cabinet Committee on State Sector Reform and Expenditure Controls is responsible for reviewing government expenditure with a view to improving value for money. The Cabinet Social Policy Committee considers social policy issues such as education, health, justice and law and order, welfare reform, child poverty and vulnerable children.

Once Cabinet has approved a proposal, the responsible minister will instruct the relevant agency to proceed. If the proposal requires new expenditure, it is included as part of the annual appropriations and forwarded to Parliament for consideration as part of the Annual Appropriations Bill.

Parliament authorises spending on social services

The scrutiny of government spending by Parliament is central to Westminster democracies. New Zealand's Constitution Act 1986 makes it unlawful for the Crown to spend any public money unless the expenditure has been authorised by an Act of Parliament (s 22). Similarly, s 4 of the Public Finance Act 1989 (PFA) states:

> The Crown or an Office of Parliament must not incur expenses or capital expenditure, except as expressly authorised by an appropriation, or other authority, by or under an Act.

Annual Appropriation Acts are the main avenue through which Parliament authorises ministers to use public resources. Appropriation Acts specify the amount of expenditure that ministers are authorised to incur in specified areas (known as appropriations). Appropriations are organised by "Votes" (eg, Vote Health, Vote Education and Vote Social Development) and can cover a period of up to five years. The 2014/2015 appropriations under Vote Social Development included:

- Assistance to Disadvantaged Persons;
- Connected Communities;
- Counselling and Rehabilitation Services;
- Education and Prevention Services;
- Family Wellbeing Services;
- Part Payment of Rent to Social Housing Providers;
- Services to Young People;
- Strengthening Providers and Communities; and
- Trialling New Approaches to Social Sector Change.

Appropriations for services supplied by non-government organisations are termed "non-departmental expenses".

The PFA provides the legislative framework for parliamentary scrutiny of government spending. The Act governs the use of public financial resources by, among other measures, establishing lines of responsibility

for the management of public financial resources and specifying the minimum financial and non-financial reporting obligations of ministers and departments[11].

Amendments to the PFA in 2013 sought to improve outcomes from public spending by increasing flexibility in the government's budget system. For example, the amendments included provision for multi-category appropriation (MCA). The MCA is a mechanism to shift funding between different classes of expenditure for the purposes of "contributing to a single, overarching purpose" (s 7B (b)).

Government agencies directly supply services or commission them from non-government providers

Government agencies use appropriations to deliver services in accordance with the wishes of Parliament. Under the PFA, departments must provide the responsible ministers with information on their "strategic intentions" (s 38). This must include an explanation of the "nature and scope of the department's functions and intended operations" (s 40). Departments usually use their Statements of Intent (SOI) to convey this information.

Agencies must decide on a service model for delivering services. For example, agencies could choose to provide services in-house or to contract them out. Agencies also need to make choices around the pricing of services, performance measurement and the management of risks. Chapter 6 explores commissioning tasks in greater detail. The decisions made must be consistent with details of the appropriations and with the strategic intentions of the agency.

The PFA establishes strong vertical accountability, with accountability flowing from the chief executives of departments to ministers, and from ministers to Cabinet and to Parliament.

For instance, section 35 of the PFA makes agency chief executives of departments accountable for the financial management of appropriations used for non-departmental expenses (such as the contracting out of social services). Chief executives are also responsible for advising the appropriations ministers on the "efficiency and effectiveness of expenditure" (s 35a). [12]

The appropriation minister on the other hand is responsible for providing the Parliament with the end-of-year performance information (s 19B). The information must include an assessment of what the government has achieved with the appropriation (s 19C1a), and a comparison of actual expenditure against forecast expenditure (s 19C1b).

A number of other Acts, such as the State Sector Act 1988 and the Public Audit Act 2001, reinforce strong vertical lines of accountability.

- The State Sector Act 1988 makes chief executives responsible to the appropriate minister for carrying out the functions and duties of the department (including those imposed by policy), the good conduct of the department, and the efficient, effective and economical management of the activities of the department.
- The Public Audit Act 2001 established the Controller and Auditor-General as an officer of Parliament responsible for providing independent assurance that public sector organisations are operating and accounting for their performance, in accordance with Parliament's intentions.

Legislation can also create specific responsibilities for chief executives. For example, s 7 of the Children, Young Persons, and Their Families Act 1989 sets out the duties of the chief executive responsible for the administration of the Act (currently the chief executive of MSD). These duties include:

- taking "such positive and prompt action and steps as will in the chief executive's opinion best ensure" that the objectives of the Act are attained (s 7(1)(a));

[11] The PFA and the State Sector Act 1988 refer to *departments*. Departments are listed in Schedule 1 of the State Sector Act 1988. The rest of this report, uses the term *agency* to refer to the broader set of government departments, ministries and Crown entities involved in the delivery of social services.

[12] The term "appropriation minister" refers to the ministers responsible for a specific appropriation.

- monitoring, and advising the minister on, the effect of social policies and social issues on children, young persons, families, whānau, hapū, iwi, and family groups (s 7(2)(a)); and
- promoting the establishment of services designed to provide assistance to children and young persons who lack adequate parental care, or require protection from harm, or need accommodation or social or recreational activities (s 7(2)(b)).

In addition to the responsibilities specified in legislation, officials must follow Cabinet directives and government rules. For example, the Government Rules of Sourcing set out the Government's standards for procurement planning, approaching the market and contracting (Chapter 12). These rules inform departmental operating processes and accountability structures.

Social service providers are diverse

The provision of social services occurs directly through government agencies and through contracts with non-government providers. For example, MSD has around 3700 social services contracts with some 2155 providers current in the 2014/2015 financial year.

These services differ along many dimensions, such as the extent to which the service aims to benefit an individual or the wider society, the extent to which specific outcomes can be attributable to specific interventions and the extent to which economies of scale are important in the delivery of the service.

Paralleling service diversity is a diversity in the organisations involved in delivering social services. Non-government providers vary greatly in terms of:

- whether they are for-profit or NFP organisations;
- the extent they are staffed by employed staff or volunteers;
- the social issue around which their organisational mission centres (eg, services for disabled people, family violence, youth offenders);
- the geographic area that they cover;
- the cultural communities they service;
- the breadth of services they deliver; and
- the strength of their relationship with clients.

Reviewing the efficiency and effectiveness of social services

Ideally, government agencies evaluate the outcomes of their expenditure and feed the lessons learnt into future design and delivery of services. However, as discussed in Chapters 7 and 8, this element of the system is weak.

2.5 Social services – a client's perspective

Government institutions have evolved to make government more manageable and accountable. However, several submissions noted that to clients these institutions can seem confusing, distant, overly directive, unhelpful and intimidating.

> The current system is overly confusing. Victims, perpetrators and families often find it difficult to navigate their way through a complex maze of disconnected services and systems each with different policies and processes. Agencies operate as silos and invariably do not know what other agencies can offer and hence are unable to make appropriate referrals. (The Impact Collective, sub. 130, p. 9)

The Office of the Children's Commissioner expressed similar concerns.

> A report by the Auckland City Mission on its Family 100 Project focuses on the voices of people who rely on social services in their daily lives. Many find that dealing with support services is complicated and confusing; humiliating when having to ask for help and retell their situation constantly; and feeling that their time isn't valued by employees in the system. (sub. 77, p. 7)

Box 2.2 provides a case study supplied by The People's Project (TPP) that illustrates the difficulties that people who need assistance can have when trying to engage with government institutions.[13]

Box 2.2 **Story of Chas, 30 January 2015**

The People's Project (2015) described the experience of Chas, and his difficulties accessing the services he needed.

> Chas wandered shyly through the doors of the office late Friday afternoon, lost, and dazed. He was a young lad, fresh-faced, with a recent black eye. He stood in the middle of the doorway, coyly looking out and up from under a too-long fringe. In his youthful innocence he looked out-of-place with the other Homeless in the office.
>
> "I just came from the bakery", he said pointing next door. "They said you might help me". He was soft-spoken and obviously uncomfortable talking to an adult. Chas had been at the bakery asking for a crust of bread or anything they would be able to give him. He was hungry and exhausted. He hadn't eaten all day. The bakery had given him a left-over from the day's trading, and sent him to The Peoples Project. We found him a left-over apple and chocolate in the fridge which he devoured. He wolfed down a second milo.
>
> He had just come from a two hour meeting at [Work and Income New Zealand] WINZ, trying to establish his benefit as he had no money. WINZ had done the majority of the linking, but had told Chas he needed to go to their Youth Services office in Dinsdale. Chas had been told he needed to be sighted by a WINZ officer there and to fill out a form that only the Dinsdale office had. Chas had absolutely no money for a bus fare, and was ravenously hungry and dazed from his two hour meeting at WINZ. The Dinsdale office was 5 kilometres away and he had just spent the night on the street, where he had got into a fight. Making the trip to Dinsdale was off the radar for him. It was just too hard.
>
> Chas said he had been staying on the streets, as well as couch surfing between friend's places and his half-sisters. They all had their own lives, he told us. He'd outstayed his welcome. He had been homeless he thought since October 2014. Chas told us he had aged-out of CYF's care on the day that he turned 17. Going back to his mother's place was out of the question. Going to his father's was also not an option at present, for safety reasons. Chas said he had been in CYF's care from the age of three. Going back to stay with any of his foster care-givers was also not an option for him, he told us.
>
> Initially, the Project team wondered how we would be able to help someone as young as Chas. The team did not think the Night Shelter would be appropriate for someone so young. There was a hardened crew at the Shelter and Chas was vulnerable. He was barely old enough to sign the TPP consent form.
>
> The Project team completed the necessary WINZ agency linking with Chas and took it down to WINZ. We asked WINZ why the necessary forms couldn't have been sent through from Youth Services Dinsdale office to where Chas was. They told us it was protocol. We also let WINZ know that Chas had absolutely no money to get him on a bus to Dinsdale. It was late Friday afternoon and Chas had given up. In Chas's mind, he wasn't going to get any money from WINZ that Friday. It was all too hard. Mentally, he had been preparing himself for a weekend at large, sleeping rough on the streets. He was concerned the people who had hit him would be waiting for him. He had no money, no belongings and nowhere to go.
>
> The Project team then rang local Non-Government youth service providers, Real. Within 15 minutes, two of the Real team arrived and spoke to Chas. He was taken immediately to Dinsdale WINZ where he completed the necessary paperwork and received access to emergency funds in time before WINZ closed for the week.
>
> The Real team found Chas safe temporary accommodation for the weekend. The following week, they helped Chas make connection with more permanent lodgings. Chas was then enrolled in a Mechanics course with a local non-government provider. He is now housed, receiving education and on-going support from the Real team.

[13] Concerns of the Hamilton people about people living on the streets led to the formation of the TTP. It was a community-wide response based on the rationale that no single organisation has the ability to solve homelessness.

F2.2 From a client's perspective, government processes for delivering social services can seem confusing, fragmented, overly directive and unhelpful.

2.6 Observations on the market for social services contracts

Government agencies have a finite level of resources available to fund social services. As such, they must make decisions about how to allocate available funds between alternative services and service providers. Ministers, based on the advice of officials, typically make decisions about which services the Government will fund (and the level of funding). They also make decision around the model of service delivery (Chapter 6).

Typically, agencies use competitive tendering processes to select service providers. Unlike tenders for private services, potential providers of social services usually do not compete on price. Rather, agencies select the provider on the basis of the provider's knowledge and capability and their relationship with the targeted client group. Typically agencies either:

- allocate a proportion of the expected demand for services to a provider (eg, by contracting for X many hours of counselling services); or
- select an organisation as the sole service provider for the duration of the contract.

In both these cases, providers compete for contracts, and their service volume or market share is fixed for the duration of the contract. Such arrangements are termed "competition *for* the market". This approach contrasts with "competition *in* the market" where providers compete alongside each other to attract clients. Chapter 6 and Appendix F discuss the differences between these two models of services delivery.

Social services have distinctive features that mean the "theoretical (market) model is a poor description of the social services market in New Zealand" (New Zealand Treasury, 2013, p. 12). The features arise to varying degrees in any given social service, so any analysis of how best to provide a particular social service will ultimately depend on its particular characteristics. The distinctive features observed by the Commission include the following.

- The absence of *price signals:* Unlike private markets where consumers make decisions based on price, quality and other characteristics of the service, the users of social services rarely pay the full cost of the services they use. Rather, the government purchases services on their behalf and providers compete for contracts to provide services.
- The Government has *market power:* For many services, the Government is the sole buyer and therefore yields significant influence over the services supplied, the quality of these services and the price that providers receive. It is *government* (rather than markets) that attempt to match the services provided with the needs of clients.
- The supply of *merit goods:* Merit goods are things that people should be able to receive aside from their willingness or ability to pay, and should be available on the basis of their need. This means that equity of access is an important consideration in delivering social services.
- *Spill-over effects:* Social services often create *social* benefits beyond those experienced by the recipient of the service.[14] For example, excessive alcohol consumption not only imposes "costs" on a person's health; it can also impose significant cost on that person's family, loved ones, employers, etc. Conversely, services that help a person get their drinking under control not only benefit that person, but also all the people adversely affected by that person's excessive consumption.
- Many providers are driven by a *commitment to a mission* rather than personal financial gain: While there are some for-profit providers, a sense of civic duty and commitment to a mission motivates many non-

[14] In other words, they create positive or negative *externalities*. Note that social benefits (costs) also include private benefits (costs).

government providers. Motivations are important because they influence how providers react to incentives and how they behave when their actions cannot be observed by the Government.

2.7 The system has several strengths but many weaknesses

The sheer size and complexity of the social services system makes generalisation difficult. What may be true for one part of the system may not be true for another (or may be less true). Even so, the Commission's broad observations are that the social services system has a number of strengths and weaknesses. The strengths include:

- a willingness in government agencies to launch trials and experiments (Chapter 3);
- social services workers, including a significant number of volunteers, being highly committed to improving the lives of clients.
- pockets of successful innovation exist in the use of data management and analytics (Chapter 8);
- government agencies acknowledge the lack of integration of services and the need to address this problem (Chapter 10); and
- Governments have committed, and continue to commit, strongly to improving public services (see Box 2.3).

Box 2.3 **Better Public Services**

The Better Public Services Advisory Group (BPSAG) report in November 2011 recommended reforms to increase collaboration and strengthen leadership across the public sector, and to focus the attention of ministers and chief executives on a limited number of priority outcomes (SSC, 2011). It also recommended the increased use of administrative data and analytics to shape an investment approach to public spending. The Government has broadly adopted this reform direction with a set of legislative and organisational changes, and increased investment in data linking and analytic capability.

As part of *Better Public Services*, the Government committed to 10 *result areas* that are priorities for driving improvement across the five years to 2017. These result areas are aspirational, requiring government agencies and providers to work together to achieve better outcomes. The *Better Public Service*s result areas relevant to social services are to:

- reduce long-term welfare dependence;
- increase participation in early childhood education;
- increase infant immunisation and reducing rheumatic fever;
- reduce assaults on children;
- increase proportion of 18 year olds with NCEA Level 2;
- increase the proportion of 25 to 34 year olds with NZQF Level 4 or above;
- reduce the rates of total crime, violent crime and youth crime;
- reduce re-offending; and
- ensure New Zealanders can complete their transactions with government easily in a digital environment.

Source: SSC, 2015.

The Commission has also identified a number of weaknesses in the social services system.

The system struggles to cater for multiple and inter-dependent needs

Clients access the social services system in different ways and for different reasons. For some, their main interaction with the system is through their local school or childcare centre. On occasions, they may have cause to visit their local general practitioner or perhaps a hospital if the issue is more serious. For these people, coordinating services to meet their needs is relatively straightforward, and in many cases they prefer to coordinate their own interactions with the social services system.

However, many clients have multiple, complex and overlapping needs. For these clients, addressing one need in isolation can make little difference to the person's situation, as the remaining needs cause the problem to re-occur. For example, consider a person who is unemployed and has a drug addiction. Finding the person employment without addressing their addiction is likely to make their employment unsustainable. Similarly, addressing their addiction without helping them find employment may make them susceptible to relapse.

An efficient and effective system must cater for both types of clients. Yet existing institutions are not well placed to deal with the multiple and inter-dependent problems encountered by many of New Zealand's most vulnerable individuals and families. During engagement meetings, the Commission heard time and time again of situations where the system was failing to cope adequately with the complex needs of clients. Many submissions echoed this theme.

Salvation Army noted that contracts do not cater well for complex needs.

> We recommend that a new contracting environment or approach is needed wherein providers and funders can work closely together during the different phases of the contracting process to ensure that the complex needs of those receiving social supports is accurately reflected in the design of the contracts. This new approach might also ensure that the actual service provision is more in line with the required deliverables from agencies, and also create more room for innovative responses to key social needs by the service providers. (sub. 104, p. 23)

Pharmacy Guild of New Zealand noted cases where the system is inadvertently restricting access to required services.

> Community pharmacy has experience with a DHB contract that in some areas has been so specific as to restrict those patients with complex needs access to a higher level pharmacy care. While understanding the need to define the service, this needs to be done in such a way as to not accidentally exclude patients who would benefit from the increased level of care especially those considered as vulnerable with complex needs. (sub. 11, p. 6)

Barnardos made the observation that the system is not working well for children in socially deprived areas.

> For families there is often significant choice around where, when, how and the cost of early childhood education for their children. However Barnardos is concerned that in areas of significant social deprivation and for children or families with high and complex needs, the system does not work as well. (sub. 12, p. 13)

Relationships Aotearoa commented that the system fails to take a holistic approach to individual needs.

> Specialised funding streams do not recognise the holistic nature of the issues that families with complex needs face. The current process is not operationally efficient. Furthermore it tends not to be a client centred approach but a funder centred approach. This is not the best way to support client outcomes. (sub. 56, p. 8)

CCS Disability Action highlighted that many people with high and complex needs do not access the services they are eligible for.

> According to these Ministry estimates, around 49 per cent of people with high and complex needs and their family/whānau do not access government support, despite being eligible and having significant needs. (sub. 65, p. 11)

F2.3 Existing social services are not well placed to deal with multiple and inter-dependent problems encountered by many of New Zealand's most vulnerable individuals and families.

Little visibility around what works and what does not

Government agencies have little system-wide visibility of the services and interventions that work well and those that do not. Such knowledge gaps make it difficult to assess the performance of both individual services, and of the system as a whole. Further, the absence of such information makes it unlikely that resources are being allocated to their highest value use.

Inquiry participants generally agreed that there are large gaps in knowledge at a system level.

Social Sector Trial Leads noted that knowledge is patchy throughout the system.

> The social services system is vast and there is currently no comprehensive knowledge base [in] which learning is kept. Agencies all have knowledge and learning's as do learning institutions and service providers but this knowledge is often vested in units and people in fragmented ways and is not consistently applied or shared … Information gathering varies in reliability and interpretation. In some cases information gathered is comprehensive and can be strongly relied on however this is not the case across the entire sector. (sub. 126, p. 24)

The Methodist Mission noted the link between reliable data and improving the productivity of the social services sector.

> One of the long-standing barriers to improved productivity in the social services sector has been the lack of a reliable method for generating data on client engagement and progress … This coupled with the fractured nature of the sector, resistance to anything other than narrative accounts, and the relatively low-skilled nature of the sector's management and governance; has generally meant that it has not been possible to identify what works, and even then, why it works. (sub. 4, p. 12)

Restorative Justice Aotearoa highlighted the link between high staff turnover and the level of knowledge within government agencies.

> Government agencies are also notorious for their staff turnover rates. This means that agencies do not always have the expertise or knowledge required to develop services in a coherent or consistent way. (sub. 28, p. 5)

Wesley Community Action noted that it is not only government agencies that have limited information on performance.

> Social Services, by their nature, are relational services. Every service will be convinced they are providing the right service to the right people, but there is very little proof and no local research to support this. (sub. 6, p. 2)

Superu highlighted the presence of barriers to using evaluations to improve system performance.

> Although social service programmes are often subject to some form of evaluation, there are a number of barriers which limit the ability of evaluations to improve the efficiency and effectiveness of the social services system … There are examples of evaluations in the social sector which are well planned and robust. Some features of these evaluations include a system-wide approach (looking at cross-sector issues and describing impacts which may be the result of multiple programmes), a long-term focus (measuring outcomes), using robust measurement (for example, using randomised control trials or a comparison group, or at least measuring change over time), and a client or family centric approach (putting the voice of the client at the heart of the evaluation findings, rather than evaluating the funder-provider process). (sub. 82, pp. 4-5)

F2.4 The social services system fails to create and share information about which services and interventions work well and those that do not.

Social services delivery is poorly coordinated

Government agencies delivering social services are often poorly coordinated. A study by the Auckland City Mission (2014) highlights instances of people in need having to "tell and re-tell their stories of despair to many different agents to 'prove' they were poor, truly desperate and deserving of help" (p. 18). This process can be very disempowering for those in need. The study also observed:

> Most agencies specialised in one or two areas of service provision only, necessitating clients to access multiple avenues for assistance. It was common in the stories that [agencies] referred [clients] to other services, for instance, WINZ and food banks referred [clients] to budgeters so that clients could get help with money management and juggling of debt. (p. 18)

The need for better coordination was a recurring theme in submissions. For example, Stand Children's Services, Tu Maia Whanau noted:

> There are many opportunities for better coordination, alignment, and collaboration but real service integration across and within sectors and services to ensure that the children and families we work with experience a seamless transition of supports during their engagement with social services requires a systems level approach to service integration. (sub. 127, p. 4)

Restorative Justice Aotearoa also noted the need to improve coordination between government agencies.

> RJA has a strong interest in a number of cross-sector initiatives as restorative justice practices can be applied in so many different contexts and complement many other social services. We consider that greater attention could be given to better coordination of these services and collaboration between government agencies and between providers. (sub. 28, p. 5)

The value of good coordination between government agencies is widely acknowledged by government agencies.

F2.5 Social services are often poorly coordinated, resulting in missed opportunities to improve service outcomes for clients.

Services are often not tailored to the needs of clients

Clients are individuals and, as such, often respond differently to the same intervention or service. What may work well for one person may be inappropriate or ineffective for another. Further, clients have many different combinations of needs. This means that the system must supply many different combinations of services.

Yet the social services system tends to bundle clients into homogenous groups – older New Zealanders, people with disabilities, people facing domestic violence, people with drug problems, and so on. As such, services do not tailor to the individual needs of clients. One symptom of this is the under-utilisation of entitlements. That is, even when people are entitled to services, and aware of their entitlement, they choose not to use the services because it does not meet their needs. Not only is this a poor outcome for the client; it indicates a poor use of public funding.

Several submissions noted the need for the system to allow the tailoring of services where this would lead to better outcomes. For example, Wesley Community Action noted:

> Recognising that some services need to be provided centrally (Child Protection, Health, Housing) there should be room for additional flexibility at a community and client level to tailor services to meet individual needs. (sub. 6, p. 2)

Similarly, the Impact Collective also noted:

> Individuals within government departments and NGO agencies hold different understandings about the 'problem' and different ideas about the appropriate responses. Consequently policy, planning, funding and service delivery have become increasingly generalised and less specifically tailored to those experiencing violence. (sub. 130, p. 3)

Too little innovation and too little learning from innovation

There are many examples of innovative approaches to the design and delivery of social services in New Zealand (Chapters 3 and 7). Yet, with some exceptions, the social services, both in New Zealand and elsewhere, lag other services industries in the adoption of new business models that use information and communications technology to deliver more or better services (OECD, 2014; Mansell, 2015). These new business models have been driving productivity growth in service industries globally (OECD, 2014; NZPC, 2014a). Chapter 8 identifies reasons for the slow uptake of innovations using ICT in the social services.

Innovation can also involve incremental changes to make services more effective. Yet a large number of social service providers submitted that they had severely limited scope to innovate because of difficulties in sourcing funds for innovation and tightly prescribed contracts (Chapter 7).

Even when providers do innovate, as many do, successful innovations do not easily spread through the social services system. Where government agencies fund services, they usually decide what to fund based on their own information and analysis, and prescribe how it should be funded. The social services system currently lacks an effective means to encourage and spread learning from bottom-up innovation (Chapter 7).

Government processes have high transaction costs

Transaction costs are an inevitable part of any tendering and contracting process. Parties must complete documentation, negotiated contracts and monitored performance. These processes have several aims. They aim to select the best provider for the job. They aim to establish the terms of services provision. And they aim to allocate public funds in a transparent and accountable manner.

These aims are important, yet current approaches for achieving them are inefficient and impose higher costs than necessary on both government agencies and providers. For example:

- short-term (yearly) contracts are often "renegotiated" year after year, with little change to the underlying contract;
- providers with more than one contract are audited multiple times by different government agencies;
- regular changes in contract managers mean providers have to bring new managers "up to speed" with the contract and forge new relationships; and
- performance reporting regimes meet accountability requirements, yet provide little feedback to providers about how they can improve performance.

To providers, existing government processes can appear wasteful. It was clear from submissions that this can be a source of frustration. For example, the Wise Management Group noted:

> Onerous paperwork and systems that don't talk to each other. Providers having to use vital funding for endless bureaucracy. There is waste with multiple audits all auditing the same area. (sub. 41, p. 5)

Similar views were expressed by the Otago Youth Wellness Trust.

> The constant demand placed on organisations to compete for every $ of funding, whether from government or the community, is a waste of precious resource and energy. Indeed the cost of processing and administering some of the many contestable service grants must at times exceed the amount of funding being distributed. This is particularly frustrating when much of the information being sought is repetitive and already on record. (sub. 73, p. 10)

New Zealand Disability Support Network noted:

> …providers do not want to incur high costs in working through the contracting process, as that effectively uses money that would otherwise be devoted to providing support. It follows that a focus on minimising transaction costs is essential for an efficacious contracting regime. (sub. 47, p. 9)

F2.6 Opportunities exists to reduce the transaction costs of contracting out social services. From a provider's perspective, onerous government processes can appear wasteful in that they draw resources away from providing services.

Missed opportunities for early intervention

Early intervention in social problems can significantly improve outcomes for individuals and the return on government expenditure. There is strong evidence for this yet the social services system focuses predominately on "fixing" problems once they have become apparent, rather than preventing them in the first place. Inquiry participants referred to this as the "ambulance at the bottom of the cliff" approach to service delivery.

Heckman (2009) used evidence from a range of sources to show that early intervention in the lives of disadvantaged children produces much higher returns on investments than waiting until problems emerge later in childhood or adolescence.

> If society intervenes early enough, it can improve cognitive and socio-emotional abilities, and the health of disadvantaged children…Early interventions promote schooling, reduce crime, foster workforce productivity, and reduce teenage pregnancy…The longer society waits to intervene in the life cycle of a disadvantaged child, the more costly it is to remediate disadvantage. (p. 50)

The characteristics of effective interventions to improve outcomes for young disadvantaged children have been known for decades. Heckman and others highlighted the importance of home visits and non-cognitive skills:

> Programs with home visits affect the lives of the parents and create a permanent change in the home environment that supports the child after center-based interventions end. Programs that build character and motivation that do not focus exclusively on cognition appear to be the most effective. (p. 55)

Evidence-based programmes need to start early in a person's life, be intensive, involve parents, and focus on non-cognitive as well as cognitive skills. Programmes must also be of sufficient duration to enable effective and meaningfully evaluation of results.

Moves to adopt these kinds of evidence-based programmes early in a child's life have been slow in New Zealand and elsewhere. A report to the British Government in 2011 highlighted the same problem (Allen, 2011):

> In spite of its merits, which have achieved increasing recognition by national and local government and the voluntary sector, the provision of successful evidence-based Early Intervention programmes remains persistently patchy and dogged by institutional and financial obstacles. (p. ix)

One successful regional programme in New Zealand is Early Start. This programme is an evidence-based, long-term and intensive home-visiting service aimed at supporting vulnerable Christchurch families who are caring for children under the age of five. Evaluation of the programme found it to be as effective for Māori as for non-Māori. New Zealand has long recognised the need to adopt culturally appropriate services and interventions (Sturrock & Gray, 2013).

New Zealand has adopted other evidence-based approaches, such as the parenting, educational programmes for young children (eg, Incredible Years, Triple P). However, adoption is patchy and home-visiting programmes are not necessarily included in the programmes. A government programme, with wide coverage across the country, is Family Start. It has a similar home-visiting approach to Early Start, but it has not yet proved to be an effective evidence-based programme. Evaluations have recommended improvements. MSD is currently evaluating Family Start in partnership with Auckland University of Technology.

F2.7 Strong evidence exists that early intervention in social problems can significantly improve outcomes for individuals and the return on government expenditure. Yet, the social services system's investments in early intervention are piecemeal and patchy.

A large stock of programmes face little review

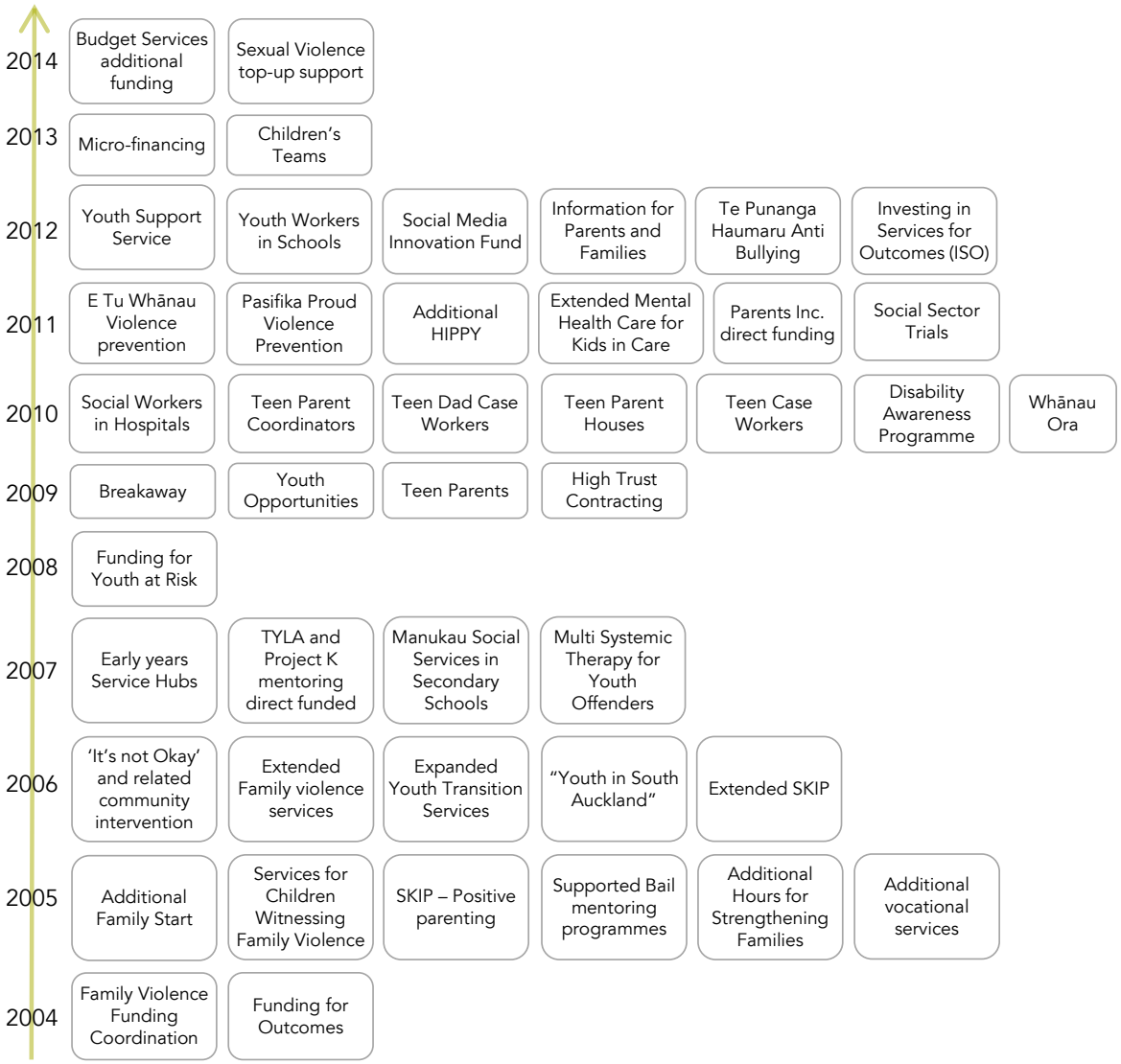
Little is known about the efficiency and effectiveness of government spending on social services. As a consequence, there is little transparency around the relative social gains from public investment in different types of social services.

The Commission has observed that a large stock of existing social services continues to be funded and run in much the same way as in past decades, with little evaluation of their impact or cost effectiveness. The flow of new initiatives have attracted much attention, but has had little effect on the existing stock or lasting impact on the performance of the system. Limited evaluations of new initiatives mean that the lessons learnt do not feed back into the system – contributing to the "funding inertia" of the large stock of programmes.

The number of agencies and number of domains in social services makes it difficult to get a clear figures for the size of the stock of social services. One stocktake, of programmes aimed at children, identified 162 different services and programmes across seven government agencies in 2012/2013.[15]

Each year further initiatives are added to the existing stock. Figure 2.7 illustrates the flow of new initiatives over the past 10 years. To the Commission's knowledge all of these initiatives are still running. Some of these may be excellent, highly effective programmes. The point is that, as a general rule, the system fails to identify the effective or the ineffective.

Figure 2.7 The flow of new initiatives over the past ten years



[15] Unpublished working data, Social Sector Forum, June 2014.

F2.8 Ministers and government agencies tend to focus on the flow of new social services initiatives. Relatively little attention is given to actively managing the large stock of social service programmes that account for the majority of public expenditure.

Chapter 4 presents a diagnosis of why these problems have arisen.

2.8 Many reviews, few lasting solutions

The weaknesses identified by the Commission are not new. Many have been around for decades and remain despite attempts to address them. Indeed numerous government reviews over the past 20 years have identified remarkably consistent lists of issues, and proposed similarly consistent solutions (Table 2.1).

While these reviews have generally succeeded in highlighting problems, the fact the problems persist today illustrates the limited success they have had in bringing about systemic change. Chapter 4 provides a discussion of why this has occurred.

Table 2.1 Issues identified by selected reviews of social services

Report	Issues identified				
	High transaction costs	Lack of coordination	Lack of focus on outcomes	Contracting capability needs improving	Performance for, or relationship with, Māori
McKinlay Douglas (1998)	✓		✓	✓	
State Services Commission (2001)		✓	✓		✓
Office of the Minister for Social Development and Employment (2007)	✓	✓	✓		
Association of Non-Government Organisations (2008)	✓	✓		✓	✓
Taskforce on Whānau-Centred Initiatives (2010)	✓	✓	✓		✓
State Services Commission (Better Public Services, 2011)	✓	✓	✓	✓	

F2.9 Over the past 20 years, numerous reports into the social services system have highlighted a consistent set of problems and proposed a set of similar solutions.

2.9 Pressures on the system

Addressing the problems is crucial in view of current and forecast pressures on the social services system. These include population ageing, increasing demand for services, rising expectations and the rising costs of service delivery.

Demand-side pressures on the system

The social services system faces demand-side pressures, including those noted below.

- *An ageing population*: The ageing population of New Zealand is the most commonly cited demand-side challenge. Most people experience a decline in health and ability as they age. Older people commonly have more than one long-term health condition, and a person with multiple long-term conditions is more likely to experience physical impairment (MoH, 2014a). An ageing population means a relatively smaller proportion of tax-paying adults to fund the social services system. A further issue is that family carers will require care as they age, yet there will be fewer younger people to care for them.

- *Unevenness in outcomes and access*: Needs for social services fall unevenly across the population. For example, MSD (2014a) has noted that Māori make up 50% of children in the custody of its chief executive, 60% of young people in a youth justice residence, 46% of sole parent support recipients and 34% percent of job seeker support recipients. Similarly, the MoH (2014a) notes that about 35% of adults living in the most deprived areas experienced one or more types of unmet need in 2012/13, compared with 23% in the least deprived areas. MoH also highlighted that people living in "high-deprivation areas are twice as likely to report cost as a reason for not visiting a GP or after-hours clinic, and are more likely to report cost as a reason for not collecting a prescription" (p. 7).

- *Increasing expectations*: Public expectations changes through time in response to changes in technology, availability of information and social trends. As technological progress makes other aspects of people's lives easier, the public will look to government processes and services to keep pace. One example is the ability to interface with government services through the use of mobile devices such as smart phones and tablets. Similarly, governments need to manage, and where necessary respond to, evolving standards of fairness and equity. Recent court cases on payment for family carers are an example. Public expectations can also be impacted by competing promises of politicians.

- Other demand-side challenges: Other challenges include raised housing costs and increased inter-generational poverty.

Supply-side pressures on the system

Government agencies need to manage demand-side pressures within the reality of fiscal limits to spending. Agencies will be under ongoing pressure to improve the efficiency and effectiveness of their systems so as to generate the greatest value from the available expenditure.

Other supply-side pressures include:

- the need to match the skills and capabilities of providers to the changing needs of clients – providers (government and non-government) need to ensure that the skills of their workforce keep pace with the growing and increasingly complex needs of clients; and

- regulation that is more stringent is likely to place pressure on the activities volunteers can undertake – volunteers may require additional training to undertake activities they have traditionally performed.

New Zealand is not the only country facing these challenges. Governments around the world are grappling with finding ways to improve the outcomes from their large expenditures on social services. And agencies can learn much from the innovative approaches to social services applied in New Zealand and elsewhere (Chapter 3).

2.10 Summary – an under-performing system under pressure

The delivery of social services occurs through a complex system of organisations, institutions and relationships. Government is a large, but by no means the only, player in the system. Other important players include non-government providers, philanthropic organisations, volunteers, family/whānau and community-based bodies such as churches. These groups play an important role in funding, coordinating and delivering services, often independent of government involvement.

Government processes place strong obligations on Vote ministers to account for public funds. This framework has its origins in the need for responsible government – that is, government that is subject to the scrutiny of Parliament and the wider public. Under this system, a number of different agencies provide social services, each with their own service for which they are accountable. Several submissions noted that, to clients, these institutions can seem confusing, distant, overly directive, unhelpful and intimidating.

While New Zealand's social services system has several strengths, the Commission has observed a number of weaknesses including:

- the system struggles to cater for people with multiple and inter-dependent needs;
- government agencies have little visibility of the programmes and interventions that work and those that do not;
- transaction costs are higher than necessary;
- opportunities for early intervention are being missed; and
- a flow of new initiatives attracts much attention, but has little effect on the existing stock of programmes or a lasting impact on the system's performance.

3 New ideas in New Zealand and elsewhere

Key points

- This chapter sets out illustrative examples of new approaches to finding more effective social services and draws lessons from them.
- The Ministry of Social Development's (MSD's) Investment Approach tests and targets employment services to improve outcomes for people at risk of long-term dependence on income support.
  - As part of the Investment Approach, MSD contracts with Youth Services providers to achieve educational outcomes for young people previously not in employment, education or training.
- A number of new approaches give greater choice to the users of social services.
  - The Australian National Disability Insurance Scheme gives people with permanent and significant disabilities a guaranteed level of funding to choose supports to achieve goals.
  - Whānau Ora navigators assist whānau to find the services and support they need.
  - Iwi and the Crown are investigating or implementing approaches that give iwi greater power to determine the type and shape of social service provision in their rohe.
- The Canterbury Clinical Network leads work to integrate health services across primary care, hospitals and support in the community.
- Some new approaches to commissioning social services aim to bring in fresh ideas from new providers or from non-government investors:
  - The New South Wales Newpin Social Benefit Bond funds UnitingCare to deliver services to return children in out-of-home care safely to their families. Investors receive a return that is based on success.
  - Te Kura Hourua O Whangarei Terenga Paraoa is a Partnership School (Kura Hourua) sponsored by He Puna Marama Trust. The Trust draws from Māori leadership and educational traditions and its own experience as a provider. The school provides for year 7-13 students in Whangarei.
- The Australian Department of Employment has developed a "managed market" for employment services over the last 17 years. Not-for-profit and for-profit providers receive payments and compete for market share based on their success in helping clients find employment.
- Lessons from the initiatives discussed in this chapter include:
  - Social service programmes that give clients an entitlement to a level of, and choice of, support promote innovation and responsiveness in provision. Yet such programmes create pressures to expand entitlements that would increase programme costs.
  - Successful implementation of substantial new social service programmes is assisted by a clear vision of the destination, careful staging and trials, continuing community consultation and independent evaluation to guide design and build support.
  - Philanthropic organisations like to take a lead in demonstrating the success of innovative approaches to social services design and delivery. They look to government to pick up and fund those approaches that prove successful.

This chapter looks at illustrative examples of new ideas in commissioning social services that intend to make progress on a number of the issues identified in Chapter 2. Some of the ideas are first being tried in New Zealand or address New Zealand-specific issues. Other ideas drawn from international experience have only recently been tried in New Zealand. Initiatives often address more than one issue simultaneously, and some take advantage of the opportunities offered by modern information and communications technology, data sharing and analytics. Leveraging data and analytics is discussed in Chapter 8.

The chapter briefly summarises what has been learnt from these initiatives so far and points forward to more developed discussion of the issues in later chapters. Evidence on effectiveness is necessarily tentative as many of the initiatives are quite recent.

The ideas have been chosen to illustrate different sorts of approaches to finding more effective social services. The chapter describes how the initiatives address particular problems and discusses their wider applicability, rather than evaluating their success.

Incrementally finding better ways of delivering current services is also innovation. This sort of innovation, applied consistently over time, can be as important as "big ideas" in the search for more effective social services (Chapter 7). Chapter 7 also identifies barriers to innovation in social services.

3.1 More efficient investment in social services

Government and government agencies are continually faced with choices about where best to deploy social services resources to achieve the outcomes they seek. In the past there has not been a systematic approach to measuring outcomes, evaluating interventions, sharing information and using this to make resourcing and programme design decisions (Chapter 2). The Ministry of Social Development (MSD) has begun using a model borrowed from the Accident Compensation Corporation (ACC) to guide decisions about the design and targeting of employment services for income support clients.

The Ministry of Social Development's Investment Approach

The Welfare Working Group (WWG) recommended, in 2011, that the Government manage the performance of a work-focused welfare system by regularly calculating the expected lifetime cost of welfare to guide its investments in employment services. The WWG expected that, compared to the previous system, an "investment approach" would shift attention of services away from clients who are easy to move off a benefit more towards "those with greatest disadvantage where investment based on managing a long-term cost would make the greatest difference" (WWG, 2011, p. 131).

MSD has in response adopted the Investment Approach.

- The Investment Approach uses an independent actuarial model to evaluate the likely long-term costs (forward liability) of paying benefits to current and recent income support clients. The valuation is based on what has happened in the past to other people with similar backgrounds (using 30 years of data on patterns of benefit receipt). This may be the first time in the world that an actuarial approach has been taken to evaluating the costs of a pay-as-you-go welfare benefit system.

- MSD staff analyse the details of the yearly valuation to identify the drivers of long-term costs and opportunities for initiatives to reduce those costs.

- MSD, in the initial stages of the Investment Approach, "prioritise[d] investment on 'short-term high intensity' services targeted towards clients whom the Ministry expects to achieve a positive outcome in a short period" (OAG, 2014a, p. 29). MSD recognised that more time is needed to effect lasting change for "those people most vulnerable and at risk of long-term dependency" (MSD, 2014b, p. 6).

- MSD tests new service designs through randomised controlled trials. In these trials MSD's evaluation team (iMSD) allocates clients to service designs according to an assessment of who is most amenable to achieving positive change. iMSD randomly streams one in ten clients into a control group to identify the effects of different service designs. To protect the integrity of the trial, clients and case managers are not able to influence the allocation. Currently, the effectiveness of service designs is measured in terms

of "days off benefit" of participants compared with the control group, over a given period of months or years.

- MSD uses the information generated by the actuarial model and service trials to set priorities for investment in (and disinvestment from) services. MSD is developing a return on investment framework to make this process more systematic by identifying the costs of delivering services down to the level of individual clients and by incorporating both immediate fiscal savings from reduced time on benefit and reductions in the forward liability. The framework will enable investments with longer-term payoffs to be evaluated alongside those with nearer-term returns.

Guided by the Investment Approach, MSD designed and contracted new services for disengaged youth. These services have led to early improvements in disengaged youths participating and achieving success in education (section 3.4 and Appendix B). MSD has successfully directed new services to sole-parent clients to help them find work (Taylor Fry, 2015). MSD is also looking at how to better assist clients with health conditions and disabilities to engage appropriately in work. For example, it has trialled contracting out employment services for clients with mental health conditions. Changes to the Public Finance Act in 2013 now make it easier for MSD to shift resources within a financial year between programmes and between in-house delivery and contracted programmes.

The actuarially determined forward liability of the benefit system reduced from $76.5 billion to $69.0 billion in the year to 30 June 2014. Taylor Fry (2015) attribute $2.2 billion of the $7.5 billion reduction to "better than expected performance over the year – as a result of policy and operational changes over the year that influenced benefit dynamics" (p. 3).

The Australian Reference Group on Welfare Reform recently recommended that the Australian Government adopt and adapt the New Zealand Investment Approach to "improve outcomes for people at risk of dependence on income support" (Reference Group on Welfare Reform, 2015, p. 126).

The Government is considering how the Investment Approach could be extended further across the social services (Minister of Finance, 2015). Extension requires, among other things, decisions about the outcome measures needed to show the value of alternative investments, and the institutional and budgeting framework in which decisions will be made. There is also a question about whether and how to use an investment model in more devolved approaches to commissioning social services. Investment models for the design and delivery of social services are discussed further in Chapter 9. An information systems architecture that could provide information on the value add of services towards desired outcomes in more devolved systems is discussed in Chapter 8.

3.2 Increasing choice and empowering service users

Clients have long been able to exercise choice in some parts of the social services. Patients can choose their GP, for instance, and parents can choose which early childhood education service to use. Tertiary students can choose their courses and their provider. Yet client choice has been limited in other parts of the social services where government contracts organisations to provide a near monopoly service in particular locations or for particular types of services. Over recent decades a number of governments, Australia and New Zealand included, have moved to expand client choice in the provision of support for people with disabilities. The Australian National Disability Insurance Scheme (NDIS) is particularly ambitious and aims both to expand client choice and empowerment and to use competition to increase efficiency and innovation in the provision of services.

The Australian National Disability Insurance Scheme

The NDIS is a new scheme that guarantees a level of financial support to eligible people with a permanent, significant or potentially significant disability, who enter the scheme before they turn 65 years of age. Funding is based on an assessment of the client's level of need and is additional to income replacement for those adults with disability who are not employed. Based on an individual plan developed with the National Disability Insurance Agency (NDIA), clients can use their entitlement to purchase supports to achieve life goals, including independence, involvement in the community, education, employment and health and wellbeing (NDIA, 2015).

An individual may manage the funding for their plan themselves, nominate someone to help them, or ask the NDIA to manage all or part of the funding for the plan (NDIA, 2015). The person with the disability, or their agent, is able to choose where they spend their entitlement. Service providers will no longer receive block funding from the Government. Instead, they will compete for a client's funds, requiring a radical reorientation of their business models. The Commission was told by the NDIA that they expect over time this will lead to new providers entering the market, as well as a substantial reorganisation and consolidation of the current provider market.

The NDIS has been described as a "generational reform that will deliver a national system of disability support focused on the individual needs and choices of people with disability" (NSW DFCS, 2014, p. 1). People with disabilities have been closely involved in leading the design and implementation of the scheme. Broad bipartisan and cross government support for reform grew as a result of alignment between the wish of people with disabilities to have more control over their lives, government agencies and providers realising that the previous system of support was inconsistent and unsustainable, and the efficiency and innovation advantages offered by a market approach (APC, 2011):

> Control and choice is so important because it is an essential ingredient to the well-being of people with disability, their families and carers. It is simple. People who are in control experience much higher levels of self-esteem than those who are not in control and do not have choices.
>
> Choice and control is also essential if a new market for disability services is going to emerge; a market characterised by innovation, competition and efficiency. (Bonyhady, 2013, p. 10)

NDIS legislation, passed in March 2013, established the NDIA to administer the scheme. Subsequently, the Australian Commonwealth and State and Territory Governments have signed agreements for the scheme's roll-out across Australia. When fully implemented in 2018/2019 the NDIS will cover 460 000 people at an estimated cost of A$22 billion a year (NDIA, 2015). Commonwealth, State and Territory Government contributions, together with an addition of 0.5% to Australia's universal health insurance levy, fund the NDIS.

The NDIS uses an actuarial approach to evaluate each quarter the projected costs of the scheme. Ensuring the financial sustainability of the scheme is a key function of the NDIA. The scheme will need to manage pressures that could cause costs and coverage to exceed official estimates. International experience shows that labour shortages driving up wages, and political pressures to expand the scheme to people with less severe disabilities, could drive up costs (Baker, 2012).

F3.1 Social service programmes that give clients an entitlement to a level of support and choice over how that entitlement is spent promote innovation and responsiveness in provision. Yet such programmes create pressures to expand entitlements, increasing programme costs. Programme design needs mechanisms for keeping costs within budget.

Implementation will take some years, and involve evaluating trials taking place in various states to enable the fine tuning of delivery models. Trials will also help verify cost estimates. States are passing their own enabling legislation. The NDIA has closely monitored the scheme's progress. Actuarial data and surveys indicated that in April 2015, 18 months through the initial three year phase, the scheme was on time, on budget and participant satisfaction was 95%. In addition, the National Institute of Labour Studies at Flinders University is leading a consortium to independently evaluate the trials over the three years from 2013. The evaluation will look at the NDIS implementation processes, and assess what is working and what needs to be further improved (NILS, 2015).

Progress in implementing the NDIS shows the value of combining a vision of the destination with careful staging and trials as a path to transformational change. Continuing community consultation and independent evaluation to guide design and build and maintain support for change underpins successful implementation.

F3.2 Successful implementation of substantial new social services schemes is assisted by a clear vision of the destination, careful staging and trials of new approaches, continuing community consultation and independent evaluation to guide design and build support.

Client choice in disability services in New Zealand

The Ministry of Health (MoH) has operated the Individualised Funding scheme since the early 2000s to deliver home and community support services for people with disabilities. After an assessment of their needs, clients work with a host organisation to develop a service plan and choose the services they require. MoH contracts providers to supply the services (Appendix D). A trial of an approach encompassing a broader range of services commenced in Canterbury in 2011 and in the Waikato in 2013, under the title *Enabling Good Lives* (Appendix D; Chapter 11). Submissions generally support the principle and practice of client-directed budgets, but a range of factors need to be considered in working out when and how to use them (Chapter 11).

Empowering families, whānau, communities and iwi

Arguments for the welfare-enhancing effects of control and choice at the individual level also apply to families, whānau, communities and other social groupings with which individuals identify. Te Roopu Waiora submits:

> It is no wonder then that disparity of Māori wellbeing persists as whanau continue to be sidelined observers of decisions made about their lives. Ownership of goals and aspirations is fundamental to whanau reclaiming their obligations and responsibilities and therefore must be recognised in the future framework for more effective social services. (sub. 97, p. 4)

Whānau Ora

Empowering whānau choice is at the centre of Whānau Ora. Whānau are engaged in a planning process that helps them set their aspirations and determine what support they want, when and where they will receive the support, and who will deliver it (Appendix C). Yet choices are limited by the resources available directly through Whānau Ora and the engagement of other government agencies:

> Whanau ora is successful as it has allowed the collaboration of seven Maori health and social service providers, aligning service provision and concentrating resources which means better, quicker and more convenient services for whanau. The key drivers have been Maori Leadership on the alliance model and the provision of a whanau centric model of service "Te Ara Whanauora". Barriers to success include … lack of understanding amongst key government partners of whanau ora delivery; gate keeping and suspicion of new ways of doing things, and lack of investment. (Palmerston North Community Services Council, sub. 125, p. 7)

Te Hiku Social Accord

Te Hiku[16] Social Accord was signed between three Te Hiku iwi and the Crown in February 2013 as part of iwi Treaty of Waitangi settlements in the far north of New Zealand (Te Hiku Iwi Development Trust, 2013). The Accord is an iwi-based approach to:

> empowering whanau living in Te Hiku o Te Ika and helping them to improve the quality of their lives. The Accord is about Crown agencies working collaboratively with Te Hiku iwi on the co-design of solutions for our whanau and community in Te Hiku.…the Accord brings iwi to sit at the social development decision-making table alongside the Crown to provide local iwi voices, focused on local issue and local solutions to change and improve the lives of the people of the Far North (Make It Happen Te Hiku, 2014, p. 3)

The Accord is an approach to iwi sharing the governance of social services in their rohe with the Crown. Parallel to the establishment of the Accord, the Minister of Social Development invited organisations and individuals in the wider Far North community to identify community goals and aspirations and to develop

[16] Literally referring to "the tail" of the fish of Māui – the North Island – Te Hiku refers to the iwi based in the Far North.

an action plan under the banner Make it Happen Te Hiku (Make It Happen Te Hiku, 2014). Make It Happen Te Hiku is adopting a collective impact approach (section 3.3).

Ngai Tūhoe entered into a relationship agreement with the Crown in 2011 in which the Crown acknowledged the mana motuhake of Tūhoe and its aspirations to self-govern. MSD and Ngai Tūhoe are now actively investigating options to decentralise welfare services in the Tūhoe rohe as part of giving effect to this agreement (Sapere, forthcoming). MSD proposes that arrangements will be congruent with its Investment Approach.

3.3 Better integrated services

Integration of social services takes a number of forms (Chapter 10). Social problems are often complex and interdependent. Integration aims to get more effective and efficient use of available resources to address such complex issues. This may involve, for instance, re-deploying resources to invest them in early interventions to avoid the need for more expensive services later.

Canterbury Clinical Network

The Canterbury Clinical Network (CCN) is a central part of an approach to integrated health and social care in Canterbury. CCN is a consortium of healthcare leaders hosted at Pegasus Health (a Primary Health Organisation), governed by a group of health and business leaders. It has only a few employees and draws resources from across the Canterbury health system. Clinicians lead CCN's project work (Timmins & Ham, 2013; CCN, 2015).

Timmins and Ham (2013) argued that the three interlocking enablers of integration in the Canterbury health system have been:

- first, the creation of the vision [of integration];
- second, a sustained investment in providing staff and contractors with the skills needed to innovate, and supporting them when they do;
- and third, new forms of contracting. (p. 15)

Leaders of the Canterbury health system promoted the idea that "there is only 'one system, one budget' …each dollar can only be spent once" (Timmins & Ham, 2013, p. 15). This shifted the focus to the best use of available resources to achieve health outcomes, rather than department by department looking for extra revenue at the margins. This shift was, in turn, supported by information systems that gave all participants a shared view of the whole system (Mansell, 2015).

This vision was reinforced by a "sustained investment in building the managerial and innovation skills needed to achieve it", involving both employees and those who contracted with the District Health Board (DHB) (Timmins & Ham, 2013, p. 15). Participants in courses were invited to come up with proposals for change, and some of these were carried forward. Leaders promoted the idea that participants were part of a changing health system of which they were the architects. Process engineers worked with clinical and other staff on business re-design projects.

The Canterbury DHB had, as early as 2001, moved from funding its hospital on a price/volume schedule to budgets for hospital departments being built from the base up. The change made it easier for managers and clinicians to look collectively for efficiencies across the hospital. Management emphasised that funding was for capacity and that any efficiency gains would not result in losing resources. Instead, saved resources would be channelled into further service improvements. The change also enabled a stronger focus on saving patients' time by reducing waiting and unnecessary or inefficient channelling of patients from one part of the system to another. The DHB adopted the view that reduced waiting time made far better use of existing resources. The changes in Canterbury worked by "appealing to the professionals' pride in their work and in their ability to achieve more" (Timmins & Ham, 2013, p. 19).

The Canterbury DHB also moved its external contracts to a form of alliance contracting "… a collective contract with pre-agreed gains and losses dependent on the overall performance of all the parties, rather than with penalties solely for whoever fails within it" (Timmins & Ham, 2013, p. 19). As far as possible, the

contracts are for providing a service capacity rather than fee for service, to give referrers and providers a joint incentive to manage the cost.

> All the contractors have agreed margins and a fixed amount of money to work with. Their performance is visible to the other partners in the alliance. Each can thus be benchmarked against the others and 'profits' go back into the system in ways the alliance partners agree in order to improve services. (Timmins & Ham, 2013, p. 19)

This happens in a high-trust, low-bureaucracy environment that encourages innovation in achieving the best outcomes for patients and the system as a whole. The environment is one "in which problems are aired rather than hidden from competitors and the funder" (Timmins & Ham, 2013, p. 20).

Major innovations from this approach include HealthPathways, created from 2008 by bringing together hospital doctors and GPs to work out best treatment and referral practice across primary, secondary and tertiary care. HealthPathways defines which treatments can be managed in the community, what tests GPs should carry out before a hospital referral and where and how GPs can access required resources. The system is electronically-based, regularly reviewed and used to provide GPs with feedback on their referrals. The system has led to a fall in the rate of rejected referrals, and more treatments being carried out in general practice (Timmins & Ham, 2013). HealthPathways has been adapted and used in a number of other health systems across Australasia (HealthPathways Community, 2015).

An Acute Demand Management System provides short-term resources for interventions to avoid hospital admissions. For instance, it might fund repeat home visits for elderly who are unwell. The Community Rehabilitation Enablement and Support Team (CREST) is aimed at reducing a person's length of stay in hospital, reducing chances of re-admission and delaying admission to aged residential care. CREST works by providing sometimes quite intensive support for patients in their homes, to help them re-build social networks and everyday functioning as well as meeting medical needs.

The combined impact of these many innovations (most of which are not unique to Canterbury) is difficult to determine (Timmins & Ham, 2013). Yet Canterbury DHB's performance on a number of measures has improved over the last seven years relative to other major DHBs. It has low rates of acute medical admissions and re-admissions; its average length of stay in hospital for medical cases is low; elective surgery has been rising as a proportion of all surgery; and waiting times have dropped. The rising trend in admissions to aged residential care was checked.

The Association of Salaried Medical Specialists describes the CCN as a distributed leadership model that is "a proven way of applying complex solutions to complex challenges" (sub. 85, p. 34). Yet, by its very nature, integration in a complex healthcare and social care system will both take time to effect and have uncertain outcomes (Timmins & Ham, 2013). The Association of Salaried Medical Specialists notes:

> [w]hat is clear from the literature, however, is that organisational 'integration' involves upfront costs. It is a 'marathon', rather than a sprint (in fact it is commonly viewed as a continuing process); and it is challenging to implement, even when it is a 'bottom up' process, let alone when it is an imposed directive. (Association of Salaried Medical Specialists, sub. 87, p. 13)

Collective impact approach to dealing with complex social issues

While CCN does not use the term, the Canterbury initiative demonstrates the key features of the *collective impact* approach to integration in dealing with complex social issues (Hanleybrown, Kania & Kramer, 2012). The approach is based on the view that "large-scale social change comes from better cross-sectional coordination rather than from the isolated interventions of individual organisations" (p. 38).

Collective impact initiatives have five conditions that, according to Hanleybrown, Kania and Kramer (2012), allow collaborative actors to achieve social improvements:

- Common agenda: All participants have a shared vision for change including a common understanding of the problem and a joint approach to solving it through agreed actions.
- Shared measurement: Collecting data and measuring results consistently across all participants ensures efforts remain aligned and participants hold each other to account.

- **Mutually reinforcing activities:** Participant's activities must be differentiated while still being coordinated through a mutually reinforcing plan of action.
- **Continuous communication:** Consistent and open communication is needed across many players to build trust, assure mutual objectives, and create common motivation.
- **Backbone support:** Creating and managing collective impact requires a separate organisation(s) with staff and a specific set of skills to serve as the backbone for the entire initiative and to coordinate participating organisations and agencies. (p. 1)

Other integration initiatives

Integration across social services programmes has been a perennial issue in New Zealand and internationally (Chapter 10). Recent initiatives designed and led by government agencies in New Zealand include Social Sector Trials and Children's Teams. Strengthening Families was an earlier initiative led by MSD. Multiple and overlapping integration initiatives can create confusion, and the continual introduction of new initiatives suggests that they are not very effective in achieving their purpose.

In many ways, integration is business as usual for many social services providers. For instance, the Wise Group takes a "whole-of-person" approach to providing employment services for people with health challenges. These are "integrated with 60 different clinical and NGO services around the country" (sub. 41, p. 13). Integration is effected by aligning individual employment support, treatment and wellness plans.

3.4 Better contract design and management

The Ministry of Business, Innovation and Employment (MBIE) has, since 2013, been leading a three-year project to streamline contracts with non-government organisations. Social services departments, including MSD, have been involved in the project which aims to reduce inconsistency in, and duplication of, contract management practices across government agencies (Chapter 12). In a related initiative, the Cross Government Accreditation Working Group is working to reduce the duplication of accreditation activity for government social sector agencies. Doing so will reduce the compliance burden on providers and make it easier for them to transact with government agencies (Cross Government Accreditation Working Group, sub. 132).

Contracting for outcomes

Contracting for outcomes is a form of contracting where payment or contract renewal depends on outcomes achieved by providers. Contracting for outcomes can sharpen incentives to perform, while reducing the need for prescriptive contracts and providing more room for innovative service design (Chapter 7). Outcomes need to be measurable in a useful timeframe and attributable to a service provider (Chapter 12).

The Australian Department of Employment pays contracted providers for employment outcomes achieved by their clients (Appendix B). The Department and its predecessors have periodically adjusted the balance between fee-for-service and payment for outcomes over the 18 years that contracting for employment services has operated. This periodic re-adjustment reflects the difficulty in weighing a provider's ability to bear financial risk against incentives to achieve employment outcomes for different types of clients.

MSD has introduced outcomes-based performance measures for some services that it contracts (Chapter 12) and has begun to use payment for outcome in its contracts with Youth Service providers.

Payment for outcomes in the Youth Service

The Youth Service (YS) is a new approach to working with vulnerable young people (Appendix B). The YS was established in August 2012 as part of the Investment Approach (section 3.1). Early entrants to the benefit system have a high risk of long-term benefit receipt. The YS aims to engage young people not in employment, education or training (NEET) and to connect them with education and training as well as budgeting and parenting courses (as appropriate). There are three groups of clients.

- Young people aged 16 or 17 years who receive the Youth Payment (YP) from MSD because they do not receive support from their parents. The YP was previously known as the Independent Youth Benefit (IYB).
- Young parents aged 16 to 18 years who receive Youth Parent Payments (YPP).
- Other young people aged 16 or 17 years who do not receive income support but who are NEET.

MSD contracts a network of non-government provider organisations to deliver the YS. MSD believed that non-government providers would be better placed than in-house staff to engage and set up positive relationships with disadvantaged young people. Most parts of the country have only one provider in each community.

MSD uses the fee structure for YS to motivate providers to assist clients to achieve education, training and employment-based training outcomes. A part payment is made upfront as an administration fee. A further third of the total possible payment is paid for achieving milestones (such as the young person participating in education and training). Another third is paid for achieving specified results such as credits towards the National Certificate of Educational Achievement (NCEA). Before implementing the Youth Service, MSD carefully modelled the effect of the fee structure on provider viability.

In its first year of operation the service was successful in engaging youth not previously receiving a service. NEET client numbers rose from around 2000 in November 2012 to almost 10 000 by the end of 2013. Over 75% of NEET clients are now participating in full-time education or training or work-based training. Fifty percent of NEET clients gained NCEA credits in their first year in the service and 15% obtained NCEA Level 2.

Outcomes for YP clients (who received the YS) can be compared with recipients of the former IYB (who did not receive the YS). While 63% of YP clients gained credits in their first year, only 24% of IYB clients had done so; 14% of YP clients achieved NCEA Level 2 compared with only 5% of IYB clients.

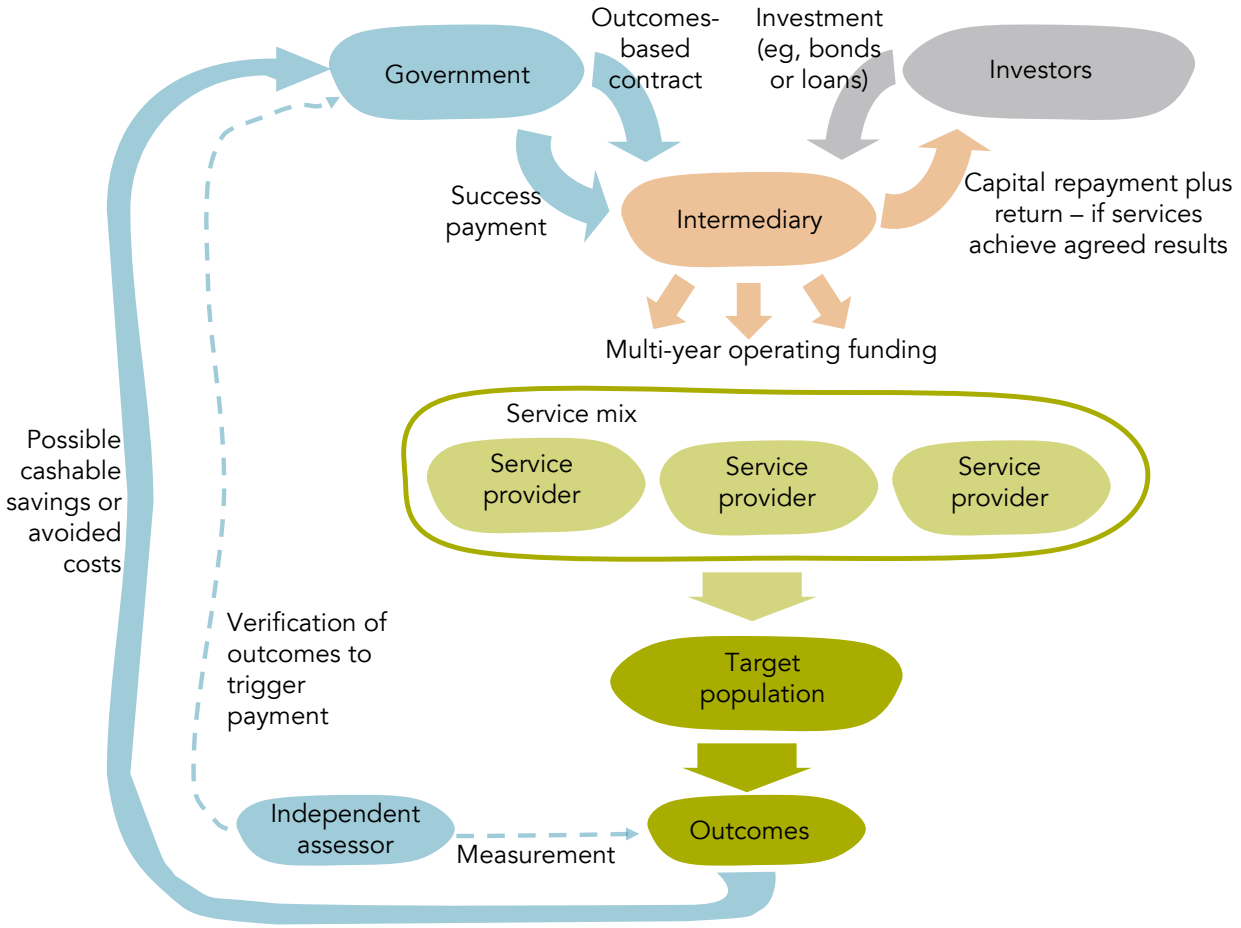
3.5 Fresh ideas from new providers and investors

Some new commissioning approaches aim to get better results for intractable social problems by using investors and providers who are willing to take on a higher-than-usual share of the risk of innovation.

Social bonds as a new service model

A social bond is a new form of contracting between the government, social services providers and investors in which the government commits to pay for improved social outcomes. An intermediary is typically the main contractor and brings together investors and social service providers to fund and provide the programme. Payment depends on the outcomes achieved that can be attributed to the programme (Figure 3.1). This means that the government agency transfers to the non-government investors some of the financial risk of unsuccessful outcomes. At the same time, the arrangement reduces the risks for capital-constrained, not-for-profit providers of implementing innovative new services. Investors may be commercial financial institutions, philanthropic organisations or private investors.

Figure 3.1 How a social bond works



Source: Minister of Health, 2013, p. 3.

MoH is leading work on developing social bonds in New Zealand (MoH, 2014b). Social bonds are being trialled in the United Kingdom, the United States and New South Wales (NSW). Outcomes sought include reduced recidivism among prisoners (eg, New York City) and restoring children in out-of-home care to their families (eg, NSW).

The structure of social bonds and their focus on outcomes provides strong incentives and flexibility for investors and providers to find more effective ways of delivering social services. Bonds require improved data collection and evidence on effectiveness that can influence system change in other social policy areas (SVA, 2013a).

The Newpin Social Bond

The NSW Government, after receiving proposals and considering options, announced in 2012 that it would work with UnitingCare and Social Ventures Australia (SVA) to develop a social benefit bond. Under the agreed arrangement, SVA raised A$7 million in funds from investors in 2013 by issuing a bond. SVA on-loaned these funds to UnitingCare to expand the Newpin programme over the next seven years (Newpin, 2014).

Newpin is an evidence-based, intensive, therapeutic programme aimed at breaking the cycle of inter-generational child neglect and abuse. Key programme outcomes are the safe restoration of children in care to their families and preventing children being placed in out-of-home care. The Newpin programme is delivered by working with parents and with children aged less than five. UnitingCare previously met the cost of the programme with only minimal government support (SVA, 2013a; 2013b).

The expanded Newpin programme is expected to generate approximately A$95 million over seven years in savings for the NSW Government in the cost of out-of-home care. [17] The NSW Government will direct about 50% of these savings to UnitingCare to fund the Newpin programme and provide a return to investors.

The bond is structured so that UnitingCare pays investors a return based on the rate of success in restoring children in care to their families. Payments are calculated as a proportion of government cost savings attributable to the programme's success. All restorations are independently decided by the NSW Children's Court. In the first year, investors received a return of 7.5% for a restoration rate of 60% (NSW DPC, 2015).[18] As numbers in the programme are small and year-by-year results volatile, the cumulative restoration rate over all previous years will be used to determine the return to investors in future years (SVA, 2014). SVA estimates that over the seven years of the bond, more than 700 families will participate in the Newpin programme and more than 400 children will be safely returned to their parents.

The social bond approach stimulates innovation by linking payment to outcomes while leaving the players to work out how to achieve them. If successful, social bonds can generate information on what works that can be applied more widely (SVA, 2013a).

Social bonds require very specific conditions to be viable and involve complex institutional arrangements that take time and skill to set up. Social bonds need clear specification of outcomes, and well-elaborated independent monitoring and evaluation. They need a large enough target population to generate valid and stable measurement of effects on outcomes that can be attributed to interventions.

Social bonds involve high transaction costs – especially for a pilot scheme. The commissioning agency will need to spend extended time in developing "market" understanding of social bonds, "match-making" and getting contract parameters right for all parties (KPMG, 2014). Developing a methodologically robust outcome measure and payment model that has the confidence of all stakeholders can also be time-consuming (Disley et al., 2011). Public sector agencies have little or no experience with this approach and face a steep learning curve as they design and put in place an initial scheme.

F3.3 Social bonds stimulate innovation by the Government sharing risk with investors and linking payments to outcomes without prescribing programmes in detail. They involve complex institutional arrangements and take time and skill to set up. They may be most useful in demonstrating the effectiveness of new approaches, rather than being applied widely across the social services.

New partners in areas of traditional state provision

Governments sometimes bring in non-government partners to generate innovation in areas of social services where direct state provision has dominated. Contracts usually give the new provider enough flexibility and strong incentives to innovate. While, internationally these approaches have been tried in some social services since the 1980s, New Zealand examples are recent.

The United Kingdom Home Office has been contracting private companies to construct and manage prisons since the 1980s. The new providers used more advanced technology (CCTV cameras, magnetic key cards and drug detection machines) as well as a focus on more constructive relationships between staff and prisoners. These innovations then spread to the state-run prisons. The providers employed staff from outside the sector, covered by other unions. This made it easier to introduce a change in culture (Sturgess, 2012). A third of staff in the first contracted prison were women compared with an average in the UK prison service of around 3% at the time. Though, these innovations were possible in the state-run prisons, the entry of other providers appears to have catalysed change.

Modern contracting out of prison management started in the United States in the 1980s, followed by Australia shortly after and then the United Kingdom. In 2011, the New Zealand Government contracted

[17] NSW Government spending on out-of-home care totalled A$700 million for 18 000 children in the year to 30 June 2012 (SVA, 2013c).

[18] The difference between the actual restoration rate and a base rate of 55% is used to calculate the return (SVA, 2013c). The base rate reflects an historic baseline for three years (KPMG, 2014). Returns are capped at 15% in any year.

Serco, a multi-national firm, to manage the Mount Eden Corrections Facility (a remand prison) for 10 years. According to Sturgess (2012), private management of prisons has proved relatively uncontroversial, except in the United States. In the United States the use of spot-markets to trade some correctional services, with less monitoring, has resulted in problems with service quality.

Some governments have sought to engage non-government providers to run schools for educationally disadvantaged students. They hope to stimulate innovation in the delivery of education and so improve educational outcomes. The approach also emphasises leadership, school choice and spreading successful approaches to other schools. The charter school movement in the United States is the best-known example.

Partnership Schools | Kura Hourua

Partnership Schools | Kura Hourua[19] (PSKH) is an initiative that commenced operating in New Zealand in 2014. New Zealand state schools already have a large degree of operational freedom compared to many other jurisdictions. Even so, the Government offers PSKH even more flexibility in terms of:

- inputs – schools are resourced entirely in cash, rather than partly in cash and partly through staffing entitlements; and
- operations – where practicable, regulations governing the operation of schools are lifted.

In return, PSKH are held accountable for specified results. They are, like state schools, subject to Educational Review Office reviews. They must accept all students who apply and hold a ballot if they are over-subscribed.

Te Kura Hourua O Whangarei Terenga Paraoa

Te Kura Hourua O Whangarei Terenga Paraoa, based in Whangarei and sponsored by He Puna Marama Trust, was one of five PSKH that commenced operation in 2014. It is a co-educational secondary school for years 7-13 which aims to raise the achievement of Māori students "by reconnecting them with an ethos of leadership and pride" (MoE, 2015a). It works in partnership with local secondary schools, so that senior students have access to a wide range of learning opportunities. He Puna Marama, established in 1997, has operated bilingual early childhood education since 2001.

He Puna Marama looked for a new approach to address the poor outcomes of Māori boys in secondary school in Whangarei. Only 19% of Māori boys had achieved Level 1 NCEA in 2007, compared to 46% for Māori boys nationally, and 64% for all boys. He Puna Marama, with funding from the ASB Community Trust, established the Leadership Academy of A Company in 2010 to support Māori boys attending secondary school in Whangarei. The Academy provides a structured environment where "cadets" live at the Academy five days a week, while attending regular secondary schools in the Whangarei area.

He Puna Marama draws inspiration from the leadership traditions of the Māori Battalion's A Company made up of men from the north and from the Māori boarding schools. The Trust also draws from the successful pastoral support practices of the former Māori Trade Training Scheme through which many older Māori had achieved post-secondary qualifications. He Puna Marama adopted three central goals to guide its work with cadets: "Be Māori", "Be Educated", and "Be Rangatira". The same philosophy underpins the Trust's sponsorship of the new school, which it regards "as one of the critical building blocks for the rejuvenation of Ngapuhi Iwi into the new age" (He Puna Marama Trust, 2013, p. 3).

The new school collaborates with other schools in the Whangarei area so that students have access to specialist subjects. This flexibility would otherwise be difficult within the funding and regulatory environment governing state schools. Seven of the eight teaching staff are registered teachers, while one part-time teacher is unregistered, as provided for in the PSKH model.

[19] Kura is the commonly used word for school in Te Reo Māori. The name Kura Hourua was derived from Waka Hourua, which is the Māori name for the traditional sea voyaging double-hulled canoes.

The school had 52 students at the end of 2014, all Māori. A recent Education Review Office Report shows that 90% of students at Level 1 of the NCEA and 100% at Level 2 had achieved sufficient credits. The report concludes:

> Te Kura Hourua O Whangarei Terenga Paraoa has made a good start to providing education for young Māori consistent with its sponsor's vision. Adults and young people are working together to develop confident, capable, resilient Māori learners. (ERO, 2015)

While it is too early to judge the ongoing success of Te Kura Hourua O Whangarei Terenga Paraoa, the school illustrates how new approaches to commissioning can provide an opportunity for fresh ways of dealing with difficult social issues. The venture combines credible educational experience in the local environment, adherence to Māori values and traditions, and flexibility to do things differently. In doing so, it has empowered a local community to design and implement a solution to a locally identified social issue.

The ASB Community Trust played a significant role in providing funding and support for He Puna Marama to try a new way of dealing with an intractable issue. This gave He Puna Marama the base to take advantage of a new government-funded opportunity to carry its vision further.

F3.4 Philanthropic organisations like to take a lead in demonstrating the success of innovative approaches to the design and delivery of social services. They look to the government to pick up and fund those approaches that prove successful.

While it is certainly possible for local communities to put forward new ideas and implement them within the state education system, in practice culture and regulation limit the extent to which this happens.

The PSKH initiative is strongly opposed by the teacher unions (New Zealand Educational Institute Te Riu Roa, sub. 40; Post Primary Teachers' Association, sub. 88). Concerns include potential effects on the existing network of state schools, funding inequities, effects of school choice on increasing social segregation across schools, the potential for fraud and the possible involvement of extremist groups in running schools. The Post Primary Teachers' Association argues that the evaluation of the initiative is not well enough designed to establish the effectiveness of the policy.

As a new initiative that has met strong opposition, PSKH schools are subject to close scrutiny from the media. Innovation is hampered by a deeply critical response to anything resembling a failure or lapse. Existing parties sometimes strongly resist the innovation in favour of the status quo.

Innovation is risky (Chapter 7). The PSKH initiative is no exception, and not all of the new schools have been as successful as Te Kura Hourua O Whangarei Terenga Paraoa. The initiative has a provision to close down new schools early if the basic conditions for success are not being met. A willingness to eliminate failing providers is an important aspect of a social services system that learns (Chapter 7).

3.6 Commissioning to develop an effective managed market

Conventional competitive markets are not always suited to social service delivery. But commissioning agencies can design variations to suit particular circumstances. A managed market is a service model that allows multiple providers to compete for market share, usually where there is a single purchaser. A managed market can achieve some of the investment and innovation benefits obtained in conventional competitive markets (Chapter 6). Yet, to achieve these benefits, such a market needs smart design to ensure a sustainable supply of services, the right balance between competition and economies of scale, and a fee structure that rewards providers for achieving desired outcomes for different types of service users.

A managed market for employment services in Australia

The Australian Department of Employment and its predecessors have operated a managed market for employment services since 1997 (Appendix B). While the Department has adjusted the market design over time, its main features are below.

- The Department contracts with non-government providers (both not-for-profit and for-profit) to provide employment services for recipients of income support.
- The Department holds contract rounds (currently at 5-year intervals). Providers tender for a share of a regional employment services market. Prices are fixed. The market share of successful providers may be adjusted at a point within a contract period to reflect their relative success in achieving employment outcomes for clients.
- Each provider receives a star rating from the Department to reflect their success in achieving employment outcomes given the types of clients they are serving and labour market conditions where they operate. Star ratings are made public and also influence the Department's decisions on market share.
- Centrelink, a separate department, administers income support. It assesses new applicants for their likely difficulty in finding employment and so the type and level of employment assistance they are eligible to receive.
- Clients may choose a contracted provider, or, instead, Centrelink refers them to one. Referrals broadly reflect the providers' contracted market share, but the rate of referral may vary somewhat above or below the contracted share (according to client choice and the provider's star ratings).
- Contracted providers receive set payments for an employment service and for successful employment outcomes for clients (section 3.4). Payments reflect the assessed difficulty for particular clients in finding employment.

Over time the market has gradually consolidated, with economies of scale favouring larger providers. In the current round, the Department specified that it would favour a limited number of larger providers in each employment region. Smaller more specialised providers would need to merge or put forward joint bids with larger ones. Employment regions were made larger. Tendering organisations were asked to outline how they would collaborate with other organisations (including other providers), with the expectation that they would be held accountable for their plans.

The Australian model has been adopted with modifications in other jurisdictions, including the United Kingdom and the Netherlands. The Australian experience shows that it is feasible to manage a market of contracted providers of employment services, but that commissioning agencies need to make careful adjustments to market design over time to avoid unintended consequences. In particular, commissioning agencies need to maintain a balance between competitive pressures to stimulate innovation and good performance and economies of scale and scope that favour larger providers. The Department has also needed to adjust the structure of payments over time to balance provider viability against performance-based payments (section 3.4).

The benefits of a managed market are less obvious in remote areas where there are too few people to sustain competition among service providers. Under a separate policy and administration, a single provider operates employment and other services in remote areas in Australia. In other rural areas with a sparse population, the Department of Employment adjusts prices to reflect local difficulties in finding employment.

Other issues involving the probity of providers and the prescriptiveness of contracts and guidelines have arisen from time to time in the Australian employment services market (Appendix B). These are not peculiar to a managed market approach; they are more general contracting issues (Chapter 12).

A developing market for the supply of social housing in New Zealand

Social housing in New Zealand has traditionally been supplied through the Housing New Zealand Corporation (HNZC), some council portfolios, and a much smaller non-profit social housing sector.

The Government used capital grants and loans through the Housing Innovation Fund (HIF) from 2003 to 2011 to promote growth in the number and size of social housing providers. In its later years the HIF had an explicit focus on trying to leverage the maximum third-party contribution for each government dollar spent, aiming to be only 30% to 50% of the total cost of development.

The Housing Shareholders Advisory Group reported in 2010. Its report advocated a range of reforms, including a re-focusing of HNZCs role, and an expanded role for the community housing sector. This led to the Social Housing Reform Programme (SHRP).

The Government established the Social Housing Unit (SHU) to "maximise the effectiveness and efficiency of supply-side provision through increased diversity and scale" (SHU, 2011) in social housing. This is explicitly a market-shaping role. Now attached to MBIE, SHU provides funds from several categories to grow the social housing sector. The Community Housing Regulatory Authority has also been established to register community housing providers (CHPs) as social landlords. CHPs require registration to be eligible to receive the income-related rent subsidy (IRRS) on behalf of tenants – something previously only available for HNZC customers. CHPs have been able to access the IRRS since April 2014.

Currently New Zealand has 38 registered CHPs of varying size and geographic spread. There are 5 000 properties owned by CHPs. Twenty-five CHPs have contracts with MSD to access the IRRS. Currently CHPs receive IRRS in relation to 194 tenants. Government decided when it made the IRRS available to CHPs that it would apply only to new tenants.

3.7 Broad lessons

Some broad lessons can be drawn from the new ideas discussed in this chapter.

MSD's Investment Approach has shown early promise both in increasing the rate at which some client groups find employment and in engaging more youth in successful employment and training that will reduce the prospects of long-term benefit receipt. The approach could be extended more widely across the social services and also applied in devolved approaches to commissioning (Chapter 9). This will require a significant broadening of the scope of data sharing and linking across government social service agencies (Chapter 8).

Extending customer control and choice to new social service areas can command wide support because it both raises wellbeing in itself and better guides the use of resources to improve outcomes. Yet programme design needs mechanisms for keeping costs within budget. Customer choice can apply to areas of social services provision where customer and wider social objectives are aligned (Chapter 11).

Whānau Ora aims to empower families and whānau to determine their own goals and choose a set of services and support to achieve them. Iwi and the Crown have introduced or are investigating a range of approaches under which iwi have greater power to determine the type and shape of social service provision in their rohe. These approaches are likely to become increasingly important in a post-settlement environment, and offer the benefits of strengthening iwi governance and self-reliance while improving outcomes for members (Chapters 5 and 13).

The CCN has made sustained progress in integrating health services in the Canterbury region and achieved improved performance relative to other major DHBs on a number of measures. The CCN's approach requires clinical and management leadership to bring together a complex range of technical capabilities, attitudinal shifts and organisational and contract design. Because of the complexity, the approach is neither easy to replicate nor to sustain (Chapter 6).

MSD's contracts for Youth Service include payments to providers for the educational and training success of its clients. Payment for outcomes allows contracts to be less prescriptive and provides more scope for innovation in the design and delivery of services. The approach could be applied more widely in government contracts with social services providers (Chapter 12).

Social bonds can stimulate new approaches to old problems by paying investors returns on the basis of outcomes achieved, while avoiding tight prescription of services offered. While social bonds introduce parties able and willing to take some of the risk of innovation, they involve complex institutional and contractual arrangements, and take time and skill to set up. They may be most useful in demonstrating the effectiveness of new approaches to service delivery, rather than being applied widely across the social services.

Governments have sometimes contracted non-government organisations to provide social services (such as prison and education services) that the state sector traditionally provides. In some cases new providers have introduced innovative approaches to service delivery that have then been taken up more widely. Trying new providers and new ideas carries risks. Commissioning skills, including choosing the best service model, are important for success (Chapter 6).

4 An assessment of the social services system

Key points

- Focusing on the social services system (rather than specific services, programmes or providers) allows a broader understanding of the institutions and processes that shape the outcomes from government-funded services.
- This chapter concentrates on diagnosing the causes of the under-performance in some aspects of the social services system that Chapter 2 noted. Diagnosing the causes is a necessary step to improving the system.
- Reasonable consensus exists on what a well-functioning social services system should achieve. The current system significantly under-performs relative to the criteria for a well-functioning system.
- No single factor is the cause of the system weaknesses observed by the Commission. Rather the weaknesses are due to a combination of factors.
  - Many agencies and providers lack clarity or disagree about the objectives of the system as a whole and their part in it.
  - Few mechanisms exist to capture and analyse information on the impact and cost-effectiveness of services.
  - Many government institutions come from a different era of public administration and can struggle to deal with the complexity of modern demands on government-funded services.
  - Previous attempts to reform the system failed because they did not address the underlying (institutional) causes of problems.
  - Those with decision rights often lack the required information, incentive and capability to make decisions that fulfil the objectives of the system.
  - Many contracts for social services are highly prescriptive owing to traditional government accountability and delivery arrangements, and aversion to political risk. This prescription works against innovation and responsiveness to client needs.
  - Ambiguity often exists around whether government agencies are paying for specific services that they wish to buy, or are simply contributing to programmes originated by non-government providers.
  - There is room to improve the contracting and procurement of social services. But there are limits to the gains that can be achieved through this means.
  - Government agencies have overlooked their potential to shape and manage the market for social service contracts. Consequently the market is not performing as well as it could.
  - The organisational cultures of providers and government agencies tend to be resistant to change and are sometimes paternalistic towards clients.
  - Political pressures and institutional inertia make it difficult to re-allocate funding away from under-performing programmes and initiatives.

Chapter 2 provided the Commission's observations of the strengths and weaknesses of the social services system. This chapter explores the underlying causes of the weaknesses. This diagnosis is a necessary step to improving the system.

A system-level analysis recognises that constructive discussions about improvements to social services need to make the clear distinction between the performance of the *system* and the performance of the people who work in the system. The Commission is not commenting on the performance, intentions or capability of any individual or organisation – government or non-government. Rather the intent is to take a step back and look at issues common to the delivery of many social services.

4.1 A well-functioning social services system

There are no natural limits to the social services that could be demanded. The environment always has been – and always will be – one of limited funding and scarcity of resources. The challenge is to obtain the best possible outcomes within those limits.

Social services are funded and delivered by a complex system with many participants. A system that delivers more or higher-quality services at the same cost (or, equivalently, the same services at lower cost) will promote greater wellbeing, all else being equal. The term *productivity* captures such efficiency improvements. Importantly, these improvements are about being more effective rather than working harder or longer, or accepting lower wages.

The goal of this inquiry is to find and recommend measures that would lead to such improvements in the efficiency and effectiveness of the social services system. The concept of efficiency has several dimensions, all of which are relevant to the performance of the system as a whole (Box 4.1).

Box 4.1 **Components of efficiency**

Efficiency can be broken down into *productive*, *allocative* and *dynamic* efficiency, and looked at from the *supply* and *demand* sides.

From a service-supply perspective:

- productive efficiency is producing more outputs for a given set of inputs (eg, planning home visits to minimise travel time and vehicle costs, allowing more time to be spent with clients);
- allocative efficiency is choosing what to fund (and who receives it) to maximise the overall goals of the service funder; and
- dynamic efficiency is spending the right amount on innovation, and physical and human capital to support future efficiency improvements.

From a service-demand perspective:

- productive efficiency is lowering the costs of service consumption (eg, providing information once rather multiple times, or receiving multiple services at one location);
- allocative efficiency is choosing what services to consume (and in what quantities) to maximise overall wellbeing; and
- dynamic efficiency is users deciding when to consume services to balance current and future wellbeing.

Social service designs that overlook service-demand efficiency may be treating client's time and energy as having no cost. This shows little respect for the client, and risks undermining service effectiveness.

Chapter 1 describes what a well-functioning social services system would look like from the perspective of New Zealand citizens, current clients, providers, social services agencies and the Government. While there are differences across these perspectives, there is reasonable consensus that a well-functioning social services system should:

- target public funds towards areas with the highest net returns to society;
- match the services provided to the needs of clients;
- align incentives at all levels of the system on delivering the outcomes that matter;
- ensure decision makers (at all levels) have adequate information to make choices;
- adapt to changes in client needs and the external environment;
- meet public expectations of fairness and equity;
- be responsive to the aspirations and needs of Māori and Pasifika; and
- foster continuous experimentation, learning and improvement.

4.2 Symptoms of a poorly functioning system

Chapter 2 described a number of ways in which the social services system under-performs. These are largely symptoms of deeper causes and problems. Section 4.3 identifies and analyses these causes. This section describes the different experiences and perspectives that different players in the social services have when it is under-performing. For example, clients with an urgent need will care little about the internal structure of the social services system, or who does what. The big question for them is whether the system worked or failed in meeting their needs. Providers will have different concerns.

Symptoms of system failure from a client perspective tend to arise on the demand side and include:

- being ineligible for any service, despite a client's need;
- poorly coordinated services;
- having to provide the same (or substantially similar) information multiple times to access different services; and
- bouncing between services (or repeatedly accessing the same service) because of previous service failures.

This last point describes what has been termed "failure demand" – high apparent demand for services resulting from a failure to address the underlying cause at the most appropriate point in the system (or the most appropriate point in time) (Seddon, 2008).

Providers see symptoms of system failure on the supply side. For example, they may have to supply the same (or substantially similar) information multiple times for tenders, performance monitoring and financial audits to different agencies.

Other symptoms of system failure on the supply side are more apparent to funding and commissioning organisations:

- insufficient experimentation, learning and application of that learning;
- failure to intervene early, leading to higher costs in the longer term;
- not matching clients to the most cost-effective service; and
- duplication of services that could be more efficiently provided once.

The Government and the citizens it represents are likely to have a larger concern – system sustainability. The moral and practical underpinnings of the system include concepts such as fairness and reciprocity. For example, the support from taxpayers for older citizens may rest on the expectation that future taxpayers will support them. The political sustainability of the system relies on commitment to and respect for these concepts.

A further challenge is fiscal sustainability. In the presence of population ageing, there are widespread concerns that a small number of future taxpayers will be unable (or unwilling) to support a larger number of older persons. Commitments to fund social services need to be realistic – if overly generous they may undermine the fiscal sustainability of the system.

Submitters drew the Commission's attention to many symptoms of under-performance (Box 4.2), for the most part concentrating on aspects of contracting between government agencies and non-government providers. These submissions are broadly consistent with the stories the Commission heard through its engagement meetings.

Box 4.2 **Submissions on symptoms of under-performance**

National Committee of Addiction Treatment:

> The current system of contracting services is inefficient and leads to a fragmented system of care that is difficult for people to navigate. The over-abundance of small contracts has resulted in a high overhead-value ratio as each entity competes for small pieces of the funding pie. Many organisations are managing numerous contracts with different reporting and monitoring frameworks for each contract. This creates and builds inefficiencies for both government and providers … There is little room for and no incentive to innovate in a sustainable way to achieve system wide change. (sub. 98, p. 2, 4)

New Zealand Organisation for Rare Disorders:

> While much of our health system is well organised and of a high standard, there are often areas where significant improvements can be achieved, and provision for the needs of rare disorders is certainly one of them. (sub. 89, p. 4)

Aotearoa New Zealand Association of Social Workers:

> Problems in transitions between providers usually occur when there is overworked staff on either end or when the waiting time for the next service is too long. This is where clients become lost in the system and the handovers are not communicated and recorded appropriately. In order to have smoother, uncomplicated transitions staff need a manageable workload and there needs to be more appropriate and timely services. (sub. 78, p. 7)

NGO Health & Disability Network:

> Government rarely involves clients, communities and non-profit providers in commissioning discussions, i.e. the process to identify what outcomes are desired and how these might be achieved. It usually decides it wants to buy 'x' service and tenders for it – leaving little scope for innovation or new ways of achieving outcomes … As for purchasing, the funding discrepancies between DHBs and the inconsistency in purchasing models compromise NGOs' ability to deliver nationally consistent services and provide equity of access – leading to a 'postcode lottery' for people using the health system. (sub. 70, p. 3)

Tauranga Budget Advisory Service:

> …our local relationship with MSD is very professional, but the general funding environment which continues to not recognise the interconnectivity of health, education, social services and Maori streams of currently "silo" funding is frustrating. (sub. 57, p. 1)

Platform Trust:

> …poor pricing practices coupled with increased compliance, complicated contract reporting requirements and unrealistic performance targets are compromising the capacity of community organisations to deliver high quality services. (sub. 45, p. 12)

Palmerston North Community Services Council:

… there can be an ad hoc approach to funding and service delivery. Funding and service delivery often fit like a jigsaw, and if you lose a piece of the puzzle there is a gap which can make the service delivery sporadic in the way it meets clients' needs. (sub. 125, p. 14)

4.3 Reasons for system weaknesses

A first step to addressing the symptoms of under-performance in the social services system is to identify and analyse their causes. This step offers the best chance of finding effective ways to improve performance.

This section identifies eight fundamental reasons for the weaknesses in the current system:

- reliance on traditional approaches to public administration;
- misaligned incentives at all levels of the system;
- lack of agreed measures of value inhibits knowledge about the impact of services;
- decision makers often lack the right information;
- inadequate government management of the market for the provision of social services;
- limits to what can be achieved by contracting out;
- short-termism leading to missed opportunities for early intervention; and
- obstacles to change within the system.

The Commission believes that obtaining better outcomes from the social services system will require reforms that address these factors.

Reliance on traditional approaches to public administration

While approaches to policy making have evolved and diversified over the past 20 years, many of the institutions and frameworks for public administration have remained relatively unchanged. These institutions and frameworks have several features that reduce the ability of the system to deal with the multiple and inter-dependent problems that many disadvantaged clients suffer.

For example, budget appropriations are typically allocated to individual agencies along service lines (eg, Vote health, Vote education, Vote justice). The key benefit of this structure is to maintain strong vertical lines of accountability. Yet it has the effect of breaking services into highly functionalised and specialised administrative groups. Therefore, while many clients have several inter-dependent and mutually reinforcing issues, the system delivers assistance down discrete channels sometimes called "silos". A number of problems result from delivering services through separate silos.

The duplication of government processes: Clients are often forced to engage with multiple administrative processes across different geographic locations. This typically results in clients having to provide the same information multiple times – creating frustration and cost for the client. For providers, contracts with

multiple government agencies often result in duplication of auditing and reporting processes – pulling resources away from higher-value uses.[20]

Incomplete diagnosis of a client's problems and requirements: Because every point in the system is evaluating need through its own specialised lens, it is difficult to get a complete picture of the client's overall circumstances. This makes it hard to identify the combination of services that best meets the client's needs, and the client ends up bouncing from one part of the system to the next, seeking assistance. At the same time, providers repeatedly call for a more "holistic" approach to service delivery (see submissions 100, 103, 104 and 126).

Repeated calls for more joined-up government: Problems associated with fragmentation are well known to government agencies and providers. Chapter 10 identifies over 25 initiatives launched since 2000 with the aim of improving coordination within government. However these attempts to integrate have failed to address the silo architecture that created fragmentation in the first place. The observations of the UK system made by Haldenby, Harries and Olliff-Cooper (2014) are relevant to the discussions in New Zealand.

> New Labour came to power with a huge emphasis on 'joined up government', and left office with a panoply of boards, partnerships, networks, integrated plans and learning hubs to prove it. This is not proper integration. Rather it is keeping the defunct subsystem of separate institutions and budgets in place, and asking everyone to send an ambassador to interminable meetings. (p. 25)

The observations of Locality and Vanguard Consulting (2014), again with respect to the United Kingdom, are also relevant:

> Today's public services are not designed for 'people who need help'. In the manner of a hospital set up to deliver a specific intervention – a replacement hip or cataract removal – they are designed to batch-process fixes for predefined one-off issues and then close the books. In consequence they are systems that assess rather than understand; transact rather than build relationships; refer on rather than take responsibility; prescribe packages of activity rather than take the time to understand what improves a life. As in any system that fails to solve the underlying problems, they amplify work, appearing frenetically busy while accomplishing less and less. Based on identifying needs rather than strengths, they fail to help individuals and communities build self-sustaining support systems that increase agency and independence, instead increasing resource consumption and dependency and accelerating decline. (p. 20)

Another consequence of a system that operates in non-integrated, vertical silos is that cases that do not quite fit a silo, or where the consequences of failure to treat a problem fall on another agency, are accorded lower priority than they ought to receive from a system-wide perspective. The risks attaching to such cases get "shifted"; they are not dealt with in a timely, cost-effective manner. Mansell (2015, p. 14) makes the following observations about silo structures, and their tendency to produce fragmented and ineffective services for some clients:

> This kind of services-orientated structure makes collaboration difficult to foster and sustain, particularly for high-needs service users with multiple challenges. …The result is that many clients 'fall between the gaps'. They receive inappropriate or even damaging services. What they receive is unresponsive to them and comes without the other necessary supports.

F4.1 Many government institutions were created in a different era of public administration and not set up to deal with the modern demands on state-funded social services. This is particularly so when clients have complex, inter-dependent needs that span the responsibilities of multiple agencies and ministers.

Misaligned incentives

The actions of those working in the social services system are shaped by the incentives they face. Incentives often flow from rules and customs that constrain and influence the conduct of ministers, government

[20] Submissions 5, 7, 11, 32, 41, 49 and 112 all refer to this problem.

officials, providers and clients. Rules include formal and enforceable rules (such as regulatory requirements and contractual provisions) and informal rules built on social and cultural norms of behaviour.

The social services system will work best when the incentives created by these rules are strongly aligned to improving the outcomes that matter – in terms of the wellbeing of clients and the wider community. There are areas of the social services system where this alignment is not as strong as it needs to be.

Incentives from the political environment

Ministers operate in a highly contested and adversarial environment. This environment can crudely be described as one where:

- the opposition is committed to discrediting the Government so as to replace it at the next election;
- the Government is determined to stay in power; and
- politicians want to get re-elected.

The New Zealand Treasury noted:

> The need to win elections leads politicians and their parties to develop a very good understanding of the factors that drive public opinion. Media exposure is "political oxygen", mainstream media analyse the politics and not the policy of an issue, and the media require instant reactions and ready sound bites. Consequently, Ministers feel the pressure to:
>
> - respond quickly and decisively to the latest risk, accident or misdeed;
> - commit to concrete action, even without evidence that the action will address the problem, or that benefits are likely to exceed costs;
> - stick to a political commitment once made; and
> - deliver on the commitment as soon as possible. (2011, p. 10)

In such an environment, government contracts are under persistent scrutiny by groups with an interest in discrediting government policies. The threat of opportunistic scrutiny provides a strong incentive for governments to use contracting approaches that minimise political risk – such as highly specific contracts and rigid performance reporting (Moszoro, Spiller & Stolorz, 2014). The threat of opportunistic scrutiny also prompts government agencies to offer contracts of short duration and works against relational contracting.[21] Providers often interpret these phenomena as indicating that the agencies do not trust them.

The risk of opportunistic scrutiny and criticism of government programmes also inhibits governments from subjecting the programmes to robust evaluations.

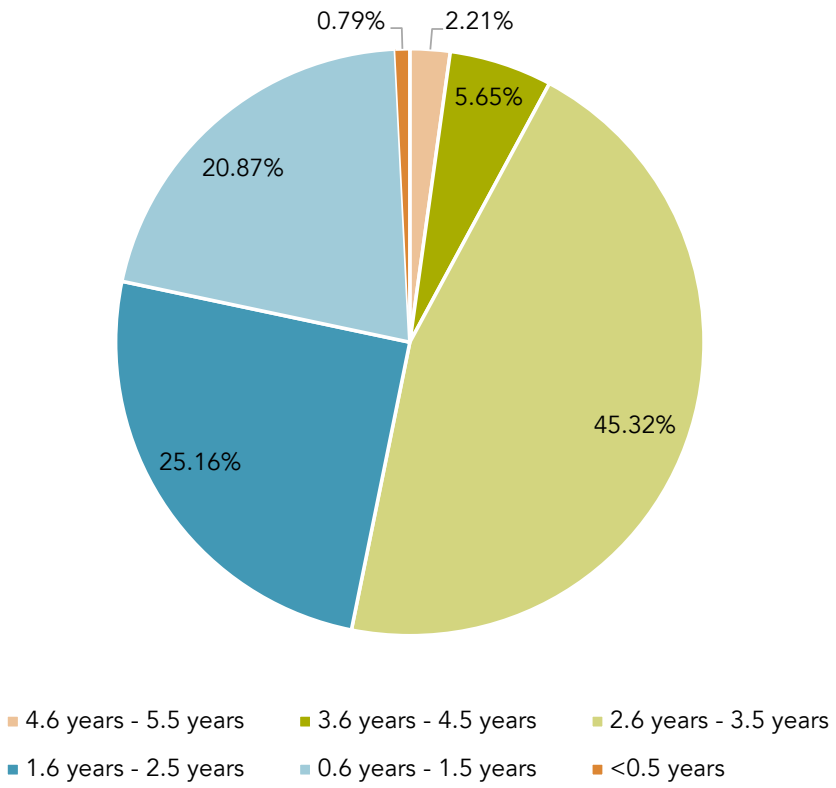
Chapter 2 noted there is too little innovation in social services both among providers and within government agencies.

One reason for this is that contracting-out models that involve short, tightly specified contracts create little room or incentive for providers to experiment, or to share and adopt innovations. This is particularly the case where experimenting would mean providers investing in assets, relationships, personnel or processes that are specific to their current contracts. If the lengths of these contracts are short, providers have limited assurance that they will be able to recover their costs should the Government choose not to renew them.

Figure 4.1 shows data on the length of Ministry of Social Development (MSD) contracts for services in 2014/2015. Little contracted expenditure is on contracts longer than 3.5 years, and 46% is on contracts of less than 2.5 years.

[21] Relational contracts, as used in the private sector, rely on informal agreements and self-enforcement based on the parties agreeing to contract variations without formal renegotiation or litigation (Chapter 12).

Figure 4.1 Percentage of MSD contracted-out expenditure in 2014/2015 by contract duration



Source: MSD contract databases; Productivity Commission.

These issues are not new. In 2001, the Review of the Centre identified "Risk aversion due to the political cost of failure" as an impediment to better frontline services (p. 15). The review noted that "[t]here are inherent features of the State Sector that discourage innovation (eg, high political cost if risky innovation fails)" (p. 16).

More recently, the Better Public Services Working Group found that:

> …in the New Zealand state services, innovation is being stifled by a lack of capability, an undue degree of risk aversion on the part of chief executives, boards, and Ministers and little consideration of how to manage risk in this context. (2011, p. 20)

In addition to political risk, the behaviour of officials can be heavy influenced by:

- accountability for allocated budgets rather than the total costs to government and the wider public; and
- incentives to manage *costs* rather than *value*.

F4.2 Accountability and delivery structures within government agencies place a high emphasis on managing costs and political risks. This can result in a lack of focus on value, and in highly prescriptive contracts that work against innovation in services.

The highly prescriptive contracts that government agencies tend to offer providers also limit the discretion of providers to tailor services to the individual needs of clients – even when this would be in the interests of the client and consistent with the outcomes sought by agencies.

Birthright New Zealand noted:

> Contracts between Government agencies and providers are typically tightly prescribed and do not recognise the dynamic situations of the families we work with. The Growing Up in New Zealand longitudinal study report which focusses on vulnerability highlights the rate at which family

> circumstances may change. To ensure that services can be targeted to address need, contracts need greater flexibility. In some instances, longer term interventions may be required for children and families whether this is due to chronic health conditions or complexity of need. Contracts with providers should reflect that they are best placed to assess and identify how available resources are best matched to client need. (sub. 128, p. 4)

This view is echoed in a report by the New Zealand Treasury (2013).

> …accountability from the purchaser to the provider for the contracts and funding is still primarily based on volumes, inputs and outputs. Highly specified contracts are an important form of risk management for government in industries where there is great uncertainty about the outcomes, such as supplying social services to clients who may not agree they have problems they need to address. It gives some ability to identify and manage poor performance by agencies where this is captured by the measures used. However, when the level of specification interferes with the delivery of the service, there may be a case to rethink if contracted delivery is the best way of supplying the service. (p. 17)

F4.3 Tightly prescribed government contracts reduce the flexibility of providers to tailor services to meet the needs of clients. This is problematic in cases where the tailoring of services would improve client outcomes.

Incentives from the competitive environment

As well as the effects of tightly specified and short contracts, the way that competitive tendering for social services contracts works can adversely affect the inclination of providers to collaborate and share information. Barnardos notes that this disincentive creates an undesirable tension.

> The aim may well be to get the best of both worlds. However this is a difficult combination for organisations to manage. There are strong incentives to build our own competitive advantage by not sharing, by seeking to undercut others and by closely guarding our own intellectual property. At the same time the strong message from government (and from the children, families and communities we work with) is that they want and value genuine collaboration amongst providers. An effective system cannot ignore this tension. (sub. 12, p. 8)

The leads of the Social Sector Trials make a similar point.

> …that the contestable nature of funding means that providers often revert to the strict terms of their contract rather than engendering co-operation or alignment with similar or complementary providers – unless it's forced. (Social Sector Trials, sub. 126, p. 15)

The Commission has heard of instances where providers have invested resources in developing innovative programmes, only to miss out on government contracts in a tender process to supply the programmes they created, and without any form of reward for the innovation (Chapter 7, Box 7.4).

Another adverse incentive can occur when providers have been awarded a contract for a specific number of clients or units of activity. When that point is reached and providers are at capacity, they will have an incentive to "cream skim" easier clients and "park" the more difficult cases.

Lack of agreed measures of value inhibits knowledge about the impact of services

As described in Chapter 3, MSD's Investment Approach is based on a single measure of value against which the agency can assess the relative cost effectiveness of different services for different client types. This single focus has led to impressive progress in achieving greater value (in the form of smaller expected future benefit payments). Such an agreed measure of value and the ability to measure it is not present in other social services areas. This undermines the quality and usefulness of the performance measurement that happens in these areas. All too often the result is a fragmented and incomplete picture of service performance, of which interventions work and which do not.

In a well-functioning system, decision makers will have the information they need to make good decisions. This can be achieved by allocating decision rights to those that hold the information or by developing systems to capture and share information.

> Changes made to contracts are more often driven by the desire to reduce spending, political ideology and election cycles than in response to information about what is or is not working. (Workbridge, sub. 102, p. 16)

The knowledge gaps within New Zealand's social services system are pervasive and are a key cause of weakness in the efficient and effective commissioning of services. Currently the system is vulnerable to advocates who can choose specific, ad hoc measures of social outcomes to support stories of success or woe. More clarity is required around the goals of social services, and better measurement of progress towards those goals.

There is relatively little gathering of evidence, evaluation of it and identifying and spreading good practice. The effect is that commissioning agencies all too often are unable or not motivated to redirect resources to more effective services and providers. Some aspects of the system support failure and do not reward success. Indeed, as noted above, some incentives in the system actively work against the sharing of information.

Part of the explanation for lack of transparent measures and robust performance reporting is that this carries less political risk than an open approach dedicated to improving outcomes. The lack of visibility of performance occurs despite statutory obligations on departmental chief executives to advise ministers on the efficiency and effectiveness of interventions. MSD's Investment Approach is a shining exception to lack of transparency, but it covers only services associated with work-related benefits. MSD initiated Investing in Services for Outcomes in 2012 to improve programme assessment and investment decisions in community and family services, but progress has been very slow.

F4.4 The lack of agreed measures of value has led to too little measurement and reporting of the outcomes achieved from social service programmes. Aversion to political risk has compounded this. The combined effect has often been performance reporting that, while costly, provides few insights into the impact and worth of programmes.

F4.5 Government agencies often do not subject their social service programmes to rigorous and transparent evaluation and learn from previous experience.

Decision makers often lack the right information

The top-down architecture of the social services system means it is not well adapted to the fact that actors within the system hold different types of information. For example, clients (or their family/whānau) know their individual needs, preferences and aspirations. They know the social worker they prefer, the type of job that would make them happy, the activities they need help with, and the locations that are most convenient for them to receive services.

Professionals on the other hand hold important technical information about the service options available and the processes through which clients can gain access to services. Providers also often have deep local knowledge and networks that can be used to help meet the needs of clients.

Government officials understand the priorities of ministers, the competing priorities outside social services for the uses of taxpayer funds, and the best ways to collect and analyse information on the performance of the system as a whole.

Under the current system, many important decisions – such as which services should be provided and how they are to be delivered – are made by people or organisations that lack vital information. For example, officials in government agencies mostly do not have all the information needed to efficiently and effectively match client requirements to services design. Some of this information sits closer to the clients.

Overcoming this source of poor design and delivery decisions requires either moving relevant information to existing decision makers, or moving decisions to those with the relevant information.

F4.6 There is useful information at all "levels" of the social services system, but decision makers frequently lack important relevant information to make good decisions. Overcoming this requires either moving relevant information to existing decision makers, or moving decisions to those with the relevant information.

Inadequate government management of the market for the provision of social services

In a market with a single large purchaser, that purchaser's commissioning and contracting procedures and funding decisions will have a big influence on the "ecosystem" of providers. As a single large purchaser of social services, the Government has this sort of impact. Yet, no central point or other arrangement across government agencies consciously acknowledges this impact and accepts the responsibility for using it to shape the supplier market. This is an important cause of weaknesses in this market. Weaknesses include:

- many providers being in a precarious financial position, only one contract away from going under;
- some providers lacking the resources to invest in staff training, innovation, evaluation and adequate IT systems;
- a lack of trust and good relationships in many cases between government agencies and providers; and
- government agencies becoming too dependent on particular providers for some services.

Submissions offered different perspectives on the problematic effects of government contracting on the provider market. Examples include:

> A loss of a single contract can make some providers unviable and, over time, this can lead to just one provider in an area. Then, even if service quality is not of a high standard, government can be 'stuck' with funding that provider because no-one else is left to provide the service. (NGO Health and Disability Network, sub. 70, p. 8)

> An alternative way to look at this issue is to cast "mutual dependency" as the essence of partnership. There may be risks for government agencies and service providers in monopsony/monopoly situations, but this is an inherent feature of New Zealand being a small market. Attempting to introduce competition among service providers where there is not sufficient capacity or capability tends to damage the limited capacity or capability that is available, with a corresponding decrease and disruption to the quantity or quality of the services available. There are real examples where this has happened in the last few years. (Carers New Zealand, sub. 711, p. 7)

> Clients need choice. They need to be able to choose between providers based on culture, the services they deliver and whether it best meets their unique needs. Where and who a client receives services from is usually decided by a government agency and client choice is not readily supported.

> However funding hundreds of small non-government agencies to achieve provider diversity costs not only in terms of contract management and auditing but is compromising the sustainability of the entire system. (Wise Group, sub. 41, p. 25)

Reasons for government overlooking its potential to shape the ecosystem of social services providers include:

- individual parts of government each focusing on their own contracts without seeing the big picture and the overall impact of government purchasing behaviour;
- tight budget limits lead government agencies to underfund some contracts;
- insufficient understanding of providers' ability to manage risk; and

- predominant use of "competition for the market" as opposed to "competition in the market", and failing to understand the difference in terms of their risk implications for, and other effects on, providers.

F4.7 Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the market is not performing as well as it could.

Limits to contracting out

There is a long history of attempts to improve the delivery of social services (Chapter 2). The public service has pursued "streamlined contracting" and "contracting for outcomes" for the last two decades, with limited results in implementing them and achieving better performance.

The complaints that have surfaced in submissions and in the Commission's engagement meetings with providers indicate that contracting is a pain point – the place where problems show up. Yet these problems often have deeper causes. Full resolution is likely in most cases to require changes to the wider system rather than fiddling with contractual details and tendering processes. This is not to say that improvements to contracting would not be worthwhile (Chapter 12).

Contracting out and in-house provision are natural approaches for ministers and government agencies because they enable top-down control and management of political risk. But that top-down control comes at a considerable cost – lack of innovation, and frustrated providers who are inhibited in their ability to provide responsive, integrated services.

When contracting out gives a single provider a geographic monopoly for the duration of the contract, clients are disempowered and denied choices about services and providers.

So there appear to be natural limits to what can be achieved within top-down approaches, especially when there are no agreed measures of value-for-money of different interventions. This makes it important to develop measures of value and explore other approaches. Chapters 5 and 6 examine the questions of institutional design and the commissioning of social services to help develop alternative approaches that perform better.

F4.8 Contracting models that give a service provider a geographic monopoly for the duration of a contract deny clients a choice of services and providers, and create a poor incentive for providers to deliver good services to clients.

F4.9 Problems with contracting out are often symptoms of deeper causes such as the desire to exert top-down control to limit political risk. Letting go of central control will require agreed measures of the value created by social services, and a willingness to explore different institutional designs and approaches to commissioning.

Missed opportunities for early intervention

As observed in Chapter 2, the current system does not invest in early interventions to the extent warranted by the strong evidence on the high rates of return to such investments. The underlying reasons for this under-investment are likely to be:

- lack of measures and data that enable quantification of the value of such investments (again the exception is MSD's Investment Approach, which quantifies the effects far into the future of current interventions);
- short political horizons that may make investments unattractive where the payoffs appear only well beyond those horizons;

- uncertainty about whether the long-term benefits of the investments will actually be realised because they may not be implemented well; and
- shifting social-services investment towards prevention rather than "picking up the pieces" entails a period where fiscal costs rise before they fall. Funding these costs will not be easy in a period of fiscal constraint.

Obstacles to change

Sometimes the cause of persistent system under-performance is that change is disruptive and will inevitably be threatening for some. It is useful to identify different types of obstacles to system change.

Investment in the status quo

Healthcare of New Zealand Holdings noted that many people and organisations have much investment in the current design and operation of the social services system.

> The health sector is highly resistant to change despite significant evidence to suggest that a fundamental reorientation of the health system is required to cope with the challenge of an ageing population. This resistance to change is likely the result of a combination of factors including: entrenched interests, fiscal concerns and a short term horizon for decision making. (sub. 51, p. 16)

New Zealand Organisation for Rare Disorders made similar remarks about officials:

> …officials are mostly strongly wedded to the status quo. Their focus on political risk management, cautious budget management, extremely cautious approaches to any other risks, and their investment in the system as it is, leads to a lack of willingness or opportunity for creative and flexible approaches. (sub. 89, p. 12)

All reforms create winners and losers. And prospective losers tend to push back harder than prospective winners (Kahneman & Tversky, 1979). Those with a significant stake in the status quo have a natural inclination to resist change. This complicates any objective interpretation of resistance to change: is that resistance based on good reasons, or does it reflect self-interest, or a mixture of both?

Seeing only a small part of the system

The culture of "getting the best for my client" by working the system often permeates the delivery of social services. Mansell (2015, p. 78) observed this culture when teaching doctor-patient ethics:

> Under the old services-focused accountability and incentives model that focuses on inputs and outputs and where the centre makes allocative decisions, the mental model of the actors within the system could be characterised as 'How do I adapt to *the system*, or subvert it, to secure a better outcome for patients?'… The primary obligation was to work *around* the system to meet the needs of the patient.

This culture, with participants in each part of the system taking a narrow view, is likely to lead to a poor overall allocation of resources (on both equity and efficiency grounds) and an over-investment in lobbying. Palmerston North Community Services Council notes how hard it can be to view the system as a whole:

> …the complexity of the contracting environment and the government sector means that while organisations often have a handle on how their own contracts work they do not necessarily know about, or understand, how all the different contracts with other organisations affect the sector as a whole. Even PNCSC as an umbrella organisation finds it difficult to properly comprehend the context in which we operate. (sub. 125, p. 3)

Competing worldviews

Strongly held worldviews interact with knowledge gaps to create wide differences of opinion on many subjects among system participants. The diversity of opinion on the desirable size and organisational form (for-profit versus not-for-profit) of providers offers a good example (Box 4.3).

Box 4.3 **Submissions on the desirable size and organisational form of providers**

Submitters offered contrasting and conflicting views on the desirable size and organisational form (for-profit versus not-for-profit) of social service providers.

New Zealand Council of Trade Unions:

> The community and voluntary sector needs more resourcing rather than face unfair competition from large scale corporate providers. (sub. 103, p. 14)

Blind Foundation:

> There has been a significant increase in the number of individual contract arrangements … Often the rationale for this is that community based organisations are able to add value at a local level but we are not aware whether this has been demonstrated. (sub. 16, p. 14)

The Impact Collective:

> We strongly advocate a move away from vertical and centralised purchasing via large corporate generalist NGOs to a client-centric and community focused model that facilitates the horizontal integration of service providers within each region. (sub. 130, pp. 18–19)

Otago Youth Wellness Trust:

> While large international/national Providers, with corporate cultures may offer the Funder economies of scale and some surety their lack of local knowledge can stifle innovation and discourage flexibility. When large Provider organisations respond only to contracted specifications there is no incentive to work proactively or to have regard for community strengths and assets. (sub. 73, p. 16)

Barnardos:

> The number of non-government agencies within the social services sector is a factor that needs to be addressed within an effective and efficient system. It is very difficult to have a system that consciously manages issues of sustainability, quality, staff development and retention, capacity building etc, and at the same time has an agnostic attitude to the type and number of providers that exist… Barnardos realise that this is a contentious issue … New Zealand has a small population and a limited pool of both public and private funding. How thinly do we want to spread funding? How many client management and payroll systems do we want to create? Do we really have enough skilled people to sit on hundreds of effective governance boards? Why should families have to deal with ten different organisations to get what they need? (sub. 12, p. 9)

Footsteps Education:

> Generally private businesses already have people with knowledge, good structure, management, financial accountability, stability and reporting practice. They generally have the skills and knowledge to be successful and to make the social service they are providing work for the benefit to the receiver. (sub. 42, p. 9)

New Zealand Nurses Organisation:

> The aged care sector is a case in point. Smaller local providers are gradually being overtaken by large multinational providers yielding sustained high returns to their shareholders. Their target in development is around the profit share, and this can and has resulted in service gaps, and poorer, less equitable, access than with other models. (sub. 133, p. 16)

Systemic change is a long-term process that requires a broad consensus on problem definition, causes and solutions. The Commission has been struck by the degree to which system participants shared a genuine commitment to the same ends – yet were sometimes miles apart on the means.

The strong sense of mission of social services providers offers many advantages (Appendix F), but can create a formidable barrier to change should it lead to intransigence over means. Partnerships require

compromise and flexibility on all sides, and strongly held worldviews can be a barrier to constructive partnership.

F4.10 Previous attempts to reform social services have often struggled because of competing "worldviews" that inhibit agreement on problem definitions and the underlying causes of problems.

Organisational culture

Organisational culture can be defined as the set of beliefs, values and tacit assumptions that influence the behaviour of people working for an organisation (Schein, 2013). These include commonly held notions around the factors that are important for organisational success and how success is best achieved (NZPC, 2014b).

Organisational culture can be hugely positive for organisational performance, yet problems arise when deeply embedded assumptions restrict the ability of the organisation to adapt to changes in its external environment. One example is when the established "way of doing things" acts as a barrier to adopting new approaches to delivering services.

> There is a saying 'culture eats strategy for breakfast' – meaning culture in an organisation plays a defining role in how the organisation performs – how it innovates and how it operates in a changing landscape. That's the case for both the government and for the Social Sector. The impact of culture and leadership is evident in EVERY service area. (Age Concern New Zealand, sub. 100, p. 11)

> In our view, the success of the Government's change to funding for outcomes with integrated contracts depends on achieving a complete change of culture in the funding agencies and the providers of Family Start. This will take some time and good, consistent leadership. (Myra Harpham and Jennifer Coote, sub. 102, p. 16)

Paternalistic cultures that engender a "we know what's best for you" approach to delivering services can, while well-meaning, inhibit change and be disempowering for clients.

> Government officials often think they know best when in the disability sector they often don't and the real innovation which is in the community is either lost or not funded through the Government initiatives that Officials develop. (Workbridge, sub. 102, p. 9)

> Historically, disability support and services have been heavily steeped in paternalistic and charity approaches. Thanks to the civil rights, women's rights and disabled people's rights movements' things have moved on.

> However, many disability support services are still operating in old and outdated frameworks and policies, and not realising disabled people can determine their own lives. Whilst the Government have developed some high level principles of engagement and a few small pilot programmes looking at changing disability support services, most decisions continue to be made with little or no regard to the voice and perspectives of disabled people or the expertise of disabled advocates and Disabled Person's Organisations. The overall impression is that Government systems are still largely operating in paternalistic frameworks. (Disabled Peoples Assembly, sub. 54, p. 6)

F4.11 The organisational cultures of providers and government agencies tend to be resistant to change and can be paternalistic towards clients.

Table 4.1 provides a summary of the underlying causes of the system weaknesses identified in Chapter 2.

Table 4.1 Summary of weaknesses and their underlying causes

Weakness	Underlying causes
Trouble dealing with multiple and inter-dependent problems	Reliance on traditional government institutions and structures; vertical service delivery and accountability arrangements.
Little visibility of the services (or interventions) that work well and those that do not	No agreed measures of value; few mechanisms to capture information; fragmented information systems; performance management processes that are built around accountability requirements rather than learning and knowledge sharing.
Too little innovation and learning	Prescriptive contracts aimed at minimising political risk; competitive tendering processes that reduce incentives to share information. Lack of positive incentives to innovate.
Excessive transaction costs	Tightly prescribed systems and processes aimed at minimising political risk (but creating a paper trail), overuse of contracts as a method of allocating funding.
Poorly coordinated government processes	Reliance on traditional government institutions and forms of organisation; lack of overall system view and stewardship.
Poor targeting of services to needs	Decisions made by officials at a distance from clients (and lack information on client-specific circumstances); few mechanisms for capturing information on the services and interventions that are successful.
Missed opportunities for early intervention	Fragmented service delivery and accountability arrangements, making it difficult to see the holistic requirements of clients; short-term political horizons; lack of transparent measures of value; fiscal limits constraining attempts to invest in prevention.
Too little evaluation of existing services	Desire to avoid the political risks of finding programmes are ineffective; lack of agreed measures of value; reporting requirements focused on narrow accountability rather than outcomes and learning.
Financial and capability weaknesses among providers	Inadequate management of the provider market; over-use of the contracting-out model; tight funding of contracts.

4.4 Scope for system improvement

Armed with insight and understanding about the main causes of under-performance in the social services system, it is possible to start developing constructive solutions that neutralise or at least mitigate their effects. The Commission has followed this approach. Its analysis and proposals for system reform are covered in Part Two of this report. The areas where the Commission sees the most scope for beneficial change (to be covered in depth in subsequent chapters) include:

- purposeful stewardship by the government of the overall system within which social services are delivered (Chapter 5);
- a more sophisticated and systematic approach to commissioning social services (Chapter 6);
- increased visibility of the full range of benefits and costs of different services for different client types (Chapters 6, 8 and 9);
- a system that learns and innovates (Chapter 7);
- greater use of data and analytics (Chapter 8);
- arrangements and incentives that promote service integration where integration is important for effectiveness (Chapter 10);

- greater use of client-directed and other devolved approaches (Chapters 5, 6, 7, 8, 11 and 13);
- improved contracting and purchasing (Chapter 12); and
- openness to opportunities to partner with Māori groups to meet their aspirations and needs (Chapter 13).

Dealing with individuals and families with multiple and inter-related needs is a particular challenge. This challenge is not unique to New Zealand, and defies simple solutions. What is clear is that well-intentioned people are attempting to solve complex problems in somewhat of a vacuum of information about what works, why it works, who it works for and how much it costs.

It is also clear that exhortation – calls to "do better", "collaborate more" or "innovate" – is insufficient to drive behavioural or system change. Change initiatives need to be properly grounded in an understanding of the institutions in which people work and the incentives that they face.

Part Two: What is needed for improvement?

Part One listed many reported shortcomings of the social services system. These shortcomings have been known for a long time. They remain despite well-intentioned attempts to address them. Some, perhaps many, of those attempts treated symptoms, rather than identifying and addressing underlying causes that arise from the way the overall system operates.

Part Two explores what is needed to make the social services system more effective.

- Chapter 5 sets out and explores the strengths and weaknesses of two broad *institutional architectures* that can be used to commission and deliver social services. It finds that decentralised approaches offer significant advantages over the status quo.
- Chapter 6 explains and explores *commissioning* – the set of important inter-related tasks that need to be undertaken to turn policy objectives into effective social services.
- Chapter 7 makes the case that improving social services requires a system that learns – one that tries a variety of innovative approaches, selects what works, ditches what does not, and expands successful approaches.
- Chapter 8 describes the opportunities increasingly offered by expanded datasets, new information technologies and data analytics to track the value add of services for different types of clients, and how this can greatly improve return on investment. It explores ways to expand data sharing safely to increase innovation and effectiveness.
- Chapter 9 explains the Government's *Investment Approach*, and argues for it to be extended. It explains *social insurance*, using the Accident Compensation Corporation and Australia's National Disability Insurance Scheme as examples.
- Chapter 10 explains how different types of *service integration* affect outcomes for clients, and why lack of integration is a common problem. The chapter reports evidence of positive effects from efforts to integrate. Devolved, bottom-up approaches offer the most promise.
- Chapter 11 makes the case that greater devolution of choice and control to individual service users will produce better outcomes in many situations. The chapter explores the mechanisms and models that could empower service users, increase choice and spark innovation.
- Chapter 12 proposes ways to improve purchasing practices and the design and management of contracts between government agencies and non-government providers of social services.
- Chapter 13 explores the inquiry's themes and findings from a Māori perspective, including Māori concepts of respect and caring, Treaty obligations, and what the Treaty means for partnership and devolution in social services. It describes the governance arrangements of several Māori-Crown collaborations on social services.

Part Three covers the implementation of the Commission's recommendations.

5 Institutional architecture

Key points

- Responsibility for the social services system is shared. Individuals and those in their natural support networks (family, friends, workplaces etc.) have responsibility for social outcomes. Collective responsibility for supporting people in need is expressed through a plethora of organisations and institutions, including government.
- Governments have paid considerable attention over the years to developing programmes and initiatives aimed at specific social services or client groups. Relatively little attention has been paid to the overall system design. The current arrangements may not be the best of available options.
- This chapter adopts the term *institutional architecture* to describe the design of a social services system. It focuses on the design choices available to government. Two broad architectural designs are applicable to social services. The main distinction is *who* has the responsibility to design and commission services.
  - *Top-down control* means that primary decision-making power sits with the relevant minister or chief executive of the agency.
  - *Decentralisation* transfers substantial decision-making power to semi-autonomous organisations with separate governance. It is used to varying degrees, particularly in health and education. *Social insurance* is a special case of decentralisation that assigns both decision-making power and liability for future costs to an insurer.
- The crucial consideration in choosing between architectures is under which architecture decision makers have authority, information, capability and incentives to make and implement decisions that maximise social returns.
- No architecture performs well for all needs and in all circumstances. And similarly, no architecture always performs poorly. However, the social services system would be improved by greater and smarter use of delegation and devolution.
- Because of the need to accommodate services and clients with highly varied characteristics, the social services system is likely to comprise several different architectures. This creates a need to manage the boundaries between different architectures.
- There are some important roles that government cannot delegate. Government is the major funder of social services, and only Parliament, led by the government of the day, can legislate and assign regulatory powers. Government has responsibility for the "enabling environment" for the social services system.
- Institutional architecture and the enabling environment require active management if social services are to be effective. This active management is the role of a *system steward*. The current arrangements fall somewhat short of what is required of a system steward.

Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government needs to take responsibility for system stewardship, and for making considered decisions that shape the system.

Chapter 6 introduces the concept of *commissioning* – making informed, deliberate choices about service design. Effective commissioning is fundamental to well-functioning social services, and that chapter

examines the best ways to commission services, and the capabilities required by commissioning organisations.

But there is an important conceptual and practical question to be answered before commissioning commences – *who* is best placed to commission social services? That question is the primary subject of this chapter.

Such decisions can result in the creation, re-arrangement and removal of government and sometimes non-government organisations. Those organisations, and their roles, responsibilities and interactions, largely define the *institutional architecture* of a social services system.

Splitting the *who* and the *how* of commissioning into two chapters may appear somewhat arbitrary. This split may be less-than-obvious in real-life examples of policy development. However, the split emphasises that:

- Two decisions are being made, even if one is implicit or made by default.
- These decisions have different natural lifetimes. Decisions about institutional architecture may be expected to last a decade or more, while commissioning decisions may be re-visited every few years.
- The responsibilities of commissioning organisations vary. One may be responsible for commissioning a single service, while another could manage a commissioning "pipeline" with hundreds of services.

Government also has responsibility for the "enabling environment" for the social services system (section 5.5). Three enablers are particularly relevant to improvements in social services: budget appropriations, data infrastructure and regulation.

5.1 The broader context of social support

Responsibility for the social services system is shared. Individuals and those in their natural support networks (family, friends, workplaces etc.) have responsibility for social outcomes.

> …it is hard to consider the effectiveness and efficiency of government funding for the production of social services without looking at the interface between government production and family production, and government production and community production. (John Angus, sub. 109, p. 5)
>
> Whilst few NGOs will report this, the most vulnerable people in NZ will not go to them for help. The most vulnerable will turn first to a family member or friend. (Richard Wood, sub. 18, p. 1)

Collective responsibility for supporting people in need is expressed through a plethora of organisations and institutions, including government. While the decentralised arrangements discussed and recommended in this chapter move decision making further away from ministers and departmental heads, they do not go very far towards answering the more basic question of where the boundaries of responsibility best lie. It is clear that these boundaries have shifted over time (Chapter 2).

Some demographic and social changes will likely lead to increased pressure on government and government-funded social services (Chapter 2). For example:

> …the trend for more women participating in the paid workforce is reducing the number and calibre of people available for volunteering. (Waimakariri District Council, sub. 75, p. 3)

While most would agree that social problems are usually best resolved by individuals and their families, the reality is that not all individuals and families are functional or capable, and sometimes others – such as communities or the state – need to assist.

Some inquiry participants felt that this could best be addressed by local communities, and the providers associated with them, taking a leading role, with government as a largely passive funder. The Commission believes that the social services system would be improved by greater and smarter use of delegation and devolution. Yet this decentralisation cannot be entirely unfettered, because democratic principles mean that there must be appropriate accountability to Parliament for how funds are spent.

No simple solution is likely to suffice. There is a complex nexus of expectations and responsibilities that link individuals, families, social networks, voluntary/collective organisations and the public sector. There are a variety of views about those expectations and responsibilities, and some are politically contested.

Government should be cautious in extending its responsibility, and do so only where there is evidence of wide community backing for such an extension, and reasonable expectation of being effective. A wider debate may be required about where the boundaries of responsibility for social services best lie.

> There is a need for careful consideration and open dialogue of the responsibilities that should be tagged to volunteers and community groups, vis-à-vis families, non-government social service providers, and the state. (Social Sector Trials leads, sub. 126, p. 3)

Crowding out through government service provision?

The concern is sometimes expressed that an expanding role in social services for government is simply "crowding out" – substituting for – voluntary/collective efforts. This view suggests there is no net gain to government taking on additional responsibilities.

The Chairman of Australia's National Disability Insurance Agency pointed out that family has an ongoing role in caring for family, with judicious support from government. He noted that government is a minority provider of disability support:

> With 80% of supports for people with disability being provided informally by families and friends and 20% by governments, every 1 percentage point decline in informal support capacity has led to about a 5% increase in demand for government funded disability services. (Bonyhady, 2014a, p. 3)

On the other hand, caring by family members can have an opportunity cost if it means those carers are excluded from the regular job market. In recommending a National Disability Insurance Scheme, the Australian Productivity Commission:

> …concluded that the economic benefits of the Scheme would significantly outweigh the costs, estimating that the NDIS would add close to 1% of GDP, primarily through increased employment opportunities for people with disability and their carers. (Bonyhady, 2014a, p. 4)

Also, from the perspective of many not-for-profit (NFP) providers, demand for their services is higher than they can meet. Should government take on part of that demand, there are still plenty of clients that could benefit from the voluntarily provided services.

This discussion suggests that the "crowding out" effects of government service provision will depend on the specific service details.

5.2 Governments have paid relatively little attention to institutional architecture

Over the years, governments and government agencies have paid considerable attention to developing programmes and initiatives aimed at specific social services or client groups. Yet relatively little attention has been paid to the overall system design.[22]

It is possible that current arrangements do not represent the best of available options. Circumstances change, and ideal designs become less ideal unless systems learn, evolve and, when necessary, take bold steps.

Chapters 2 and 4 listed many reported shortcomings of the social services system, and some of their potential causes. These shortcomings have been known for a long time. They remain despite well-intentioned attempts to address them. Some, perhaps many, of those attempts treated symptoms, rather than identifying and addressing underlying causes that arise from the way the overall system operates.

[22] Health is an exception to this general statement. "Since 1983 the New Zealand public health sector has undergone four structural transformations. With each change there has been a new set of organisations to fund and deliver health services: 1983-1993 Area Health Boards (AHBs); 1993-1997 Regional Health Authorities (RHAs) and Crown Health Enterprises (CHEs); 1998-2001 Health Funding Authority (HFA) and Hospital and Health Services (HHSs); and 2001 District Health Boards (DHBs)." (New Zealand Medical Association, sub. 39, p. 5)

This chapter adopts the term *institutional architecture* to describe the high-level design of a social services system. It focuses on the design choices available to government. These choices cover the government organisations involved, their roles and authority, and the basis of their relationships with other system participants. Making those choices – and choosing well – is the responsibility of government, acting on behalf of its citizens. Citizens have multiple, potentially conflicting, interests in the social services system, including as clients, future clients and taxpayers.

It is crucial that the institutional architecture supports the features of well-functioning social services system discussed in Chapters 1 and 4. Poor architectural choices are difficult and costly to remedy at lower levels of the system, if indeed they can be remedied at all.

5.3 Broad architectural designs

Two broad architectural designs are applicable to social services: *top-down control* and *decentralisation*. *Social insurance* is an important special case of decentralisation. The main distinction is *who* has the responsibility to design and commission services.

- *Top-down control* means that primary decision-making power sits with the relevant minister or department head.
- *Decentralisation* transfers substantial decision-making power to semi-autonomous organisations with separate governance. Social insurance assigns both decision-making power and liability for future costs to an insurer.

The following subsections explore these broad architectures and some important variants of them. Table 5.1 lists these architectures and their variants, along with some New Zealand examples.

Table 5.1 Institutional architectures with New Zealand examples

Broad architecture	Variant	New Zealand example
Top-down control	Classic	Department of Corrections
	Investment approach	Ministry of Social Development[1]
Decentralisation	Place-based	District Health Boards
	National	Pharmac
	Community of interest	Whānau Ora commissioning agencies
	Co-governance	Te Hiku Social Accord
	Social insurance	Accident Compensation Corporation

Notes:

1. At the present time the Investment Approach applies to income support and employment services only.

Top-down control

Top-down control of social services is common in New Zealand. This section distinguishes between "classic" top-down control, and top-down control with the investment approach.

Classic top-down control

Top-down control is implemented in practice through hierarchical structures. Top-down control facilitates strong risk management, but tends to dampen innovation because:

- experiments are subject to tight specification, reducing the possibility of serendipitous findings;
- experimentation is limited to relatively "safe" dimensions; and
- pressure to adopt "best practice" can lead to a one-off improvement, but eliminate service variations that might form the basis of future best practice. (Chapter 7)

Top-down control emphasises standardisation. Performance is driven through setting measures and targets and holding agencies to account for their delivery (see Box 5.1). But top-down control is limited in its ability to adapt services to the needs of specific clients and to local circumstances. The services provided by different organisations may be poorly integrated. Top-down control is likely to be inefficient where there is substantial variation in these needs and circumstances, particularly when the relevant information is not available centrally.

Box 5.1 **Using targets to drive performance**

Le Grand (2007) uses the terms "targets and performance management" and "targets and terror" to describe top-down control. These terms reflect the usual approach to improving service delivery under such models. Targets defined at a high level and driven downwards can create substantial one-off performance improvements.

Targets are less sustainable over the long term as organisations find ways to "game the system"; that is, increase their measured performance in ways that do not improve the "real" or intended outcome. It is typically necessary for governments to revise targets frequently. A downside of constantly moving targets is the de-motivation of staff (Le Grand, 2007).

Quality shading is another problem in target-driven systems. *Quality shading* means increased effort to achieve measured targets at the expense of lowered effort on non-measured aspects of service quality (Appendix F).

Likewise, the strong accountability of top-down control creates incentives to limit effective performance measurement and evaluation (Chapter 8). These are more likely to deliver bad news than good, from the perspective of those who might be held accountable.

The need for transparency and accountability under budget rules means that attention of both ministers and third parties focuses on dimensions that can be readily measured. As a consequence, social services programmes are often assessed in the political arena in terms of budgetary commitments (ie, dollars spent) rather than in terms of client outcomes. But dollars spent may bear little relation to actual outcomes achieved.

Top-down control with the investment approach

The Investment Approach (Chapter 3) contains features that potentially improve on the less desirable characteristics of top-down control. It does this primarily through creating new performance measures (eg, future benefit liability, return on investment), which can be aggregated within silos and compared across silos. These are much better measures on which to hold political decision makers accountable than the typical alternative of dollars spent.

An expanded investment approach could increase cross-organisational cooperation and reduce incentives for cost and risk shifting (Chapter 9).

The investment approach within a top-down control architecture also permits rapid experimentation on at least some dimensions, led from the operational rather than the policy arm of the organisation.

The investment approach – particularly if broadened along the lines discussed in Chapter 9 – may mitigate some, but not all, of the problematic aspects of top-down control. Better performance measures can only mitigate the risks of quality shading if they capture all relevant aspects of quality, which is inherently difficult to do.

An investment approach improves the information available to top-down controllers. This enables (but does not require) tighter monitoring of frontline staff and providers. Such monitoring can conflict with staff trust and loyalty (Frey, 1993). Greater monitoring can be de-motivating if staff perceive it as a sign of distrust. Increased monitoring supports increased service specification, with likely negative effects on efficient adaptation to local and client circumstances.

While the Investment Approach has been conceived as an adjunct to top-down control, it is not intrinsically tied to that architecture. With appropriate supporting infrastructure, some – perhaps all – of its advantages may be available in decentralised architectures.

Considerations for choosing to use top-down control

In some cases top-down control will be the option that best balances competing requirements. Demands for political accountability will always be high for the use of coercion, and top-down control is good at providing accountability for procedural correctness when coercive powers are used (eg, statutory child protection). And it can be efficient to bundle other services with the use of coercive powers.

Top-down control emphasises accountability and responsiveness, but at the expense of collaboration, flexibility and innovation:

> In my experience the discourse on coordination, cooperation and collaboration across government departments in the social services sector, in particular around families and children, has gone on in Wellington for at least 30 years. The current Minister of Finance himself has been speaking about it for 24 years. Unfortunately little has changed. What has been put in place is a succession of new cooperative initiatives with aspirational programmes and even more aspirational names, but the reality does not match the rhetoric…
>
> Much of what drives non-collaborative behaviour is issues of accountability and power. The new public management paradigm in the late 1980s set in place very strong lines of vertical accountability from front-line to the Minister. While an excellent initiative it did make cross-departmental collaboration more difficult.
>
> A second even more important factor is power. Collaboration requires some devolution of power from the centre. The executive arm of government in NZ is characterised by a very strong and deliberate nexus of power between individual ministers and their CEs, sustained by the two common ministerial goals in the social services of leaving a legacy of programmes and pleasing the 9th floor of the Beehive. (John Angus, sub. 109, p. 7)

Where top-down control remains the best option, it needs to be designed with an eye to achieving integration when appropriate. For example, statutory powers are often exercised in situations where clients have multiple, inter-dependent needs. It is in such situations where collaboration across silos is particularly important. The difficulties of achieving integration suggests that there should be preference for greater use of decentralised approaches where possible.

F5.1 Top-down control has significant limitations. Expanded use of other architectures may achieve substantial improvements in the performance of social services.

Decentralisation

Decentralisation can overcome some of the challenges posed by top-down control. It can include a greater range of actors and capabilities in decision making, which can lead to improved decisions. Where decentralisation moves decision-making to the communities affected by those commissioning decisions it can enable and empower those communities to improve their wellbeing (see Chapter 13 for a discussion of this in the Māori context).

Greater decentralisation may reduce the impact of the incentives that work against innovation in the core public sector. These are explained more fully in Chapter 4 (section 4.3). Briefly, political risk and the rigidity it engenders can pose barriers to diversity and experimentation. This rigidity also means that the current system exerts overly strong pressure to select "safe" services that are unlikely to cause political problems for responsible officials and ministers.

Although there are potential benefits, greater decentralisation requires careful consideration. There are many different influences on organisational effectiveness and many different attributes of institutional design that can be varied. Optimising one attribute, such as the level of decision making, can be at the expense of other attributes important for organisational effectiveness.

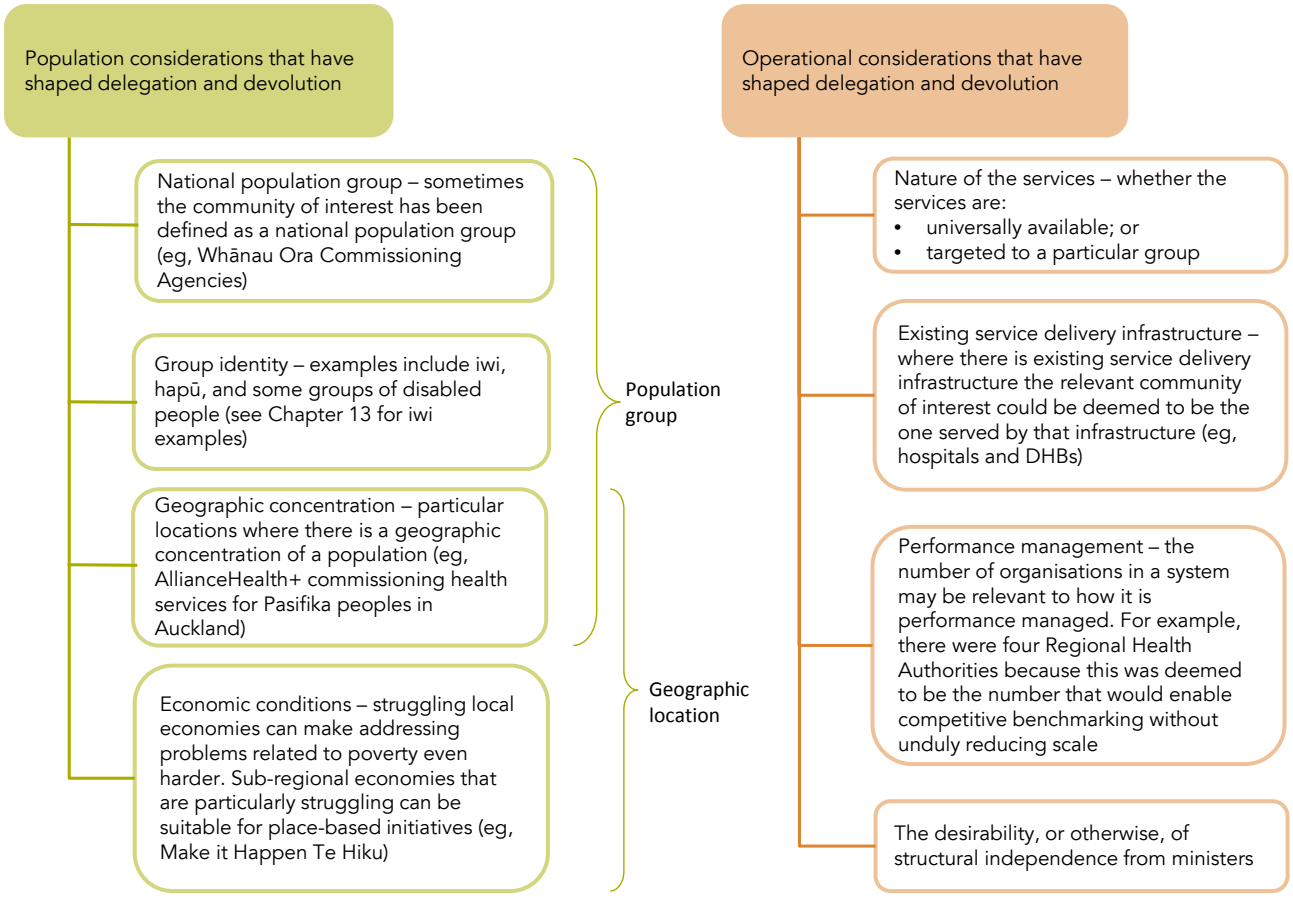
This section is not a full analysis of all the costs and benefits of different decentralised institutional forms. Such assessments can only be made for specific proposals. Rather the section contrasts the features of some different forms of decentralisation with each other, and with top-down control architectures.

For this discussion, three core concepts need to be distinguished:

- *Administrative decentralisation* describes the re-distribution of authority and responsibility away from central government. *Delegation* and *devolution* – forms that are of most interest to this inquiry – lie in a continuum of forms of decentralisation.
- Through *delegation* central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it (The World Bank Group, 2001).
- When governments *devolve* functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units… In a devolved system, [quasi-autonomous units] have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions (The World Bank Group, 2001).

Figure 5.1 shows some of the considerations that have shaped decisions about delegation and devolution.

Figure 5.1 Considerations shaping delegation and devolution



This subsection examines four types of decentralisation, based on place, national service agency, community of interest, and co-governance.

Place-based devolution

Many submitters drew the Commission's attention to the disadvantages of centralised decision-making. For example:

> …centralised decision-making [is] too often disadvantaging to isolated, smaller or rural regions … cultural and regional needs [are] not well enough considered, especially in rural areas. (National Council of Women of New Zealand, sub. 20, p. 2)

> …local decision making is critical to service delivery. Social services have developed as a response to the needs of different communities. There is a risk that decisions made at the national level may not account for regional variation. (Supporting Families in Mental Illness New Zealand, sub. 49, p. 7)

Other submitters identified costs imposed by additional levels of decision-making and reporting:

> As a national organisation we work directly with few government purchasers who centrally manage contracts. It would significantly increase our overhead costs if we had to negotiate individual agreements at a regional level, if for instance DHBs were given responsibility for the local purchase of sensory disability services. (Blind Foundation, sub. 16, p. 14)

> For one major contract, RA is currently required to write about 35 narrative reports quarterly to meet reporting requirements for different funding streams (regional and central funding). (Relationships Aotearoa, sub. 56, p. 8)

It is instructive to look at two New Zealand examples of place-based devolution: DHBs and local government.

District Health Boards

New Zealand has 20 DHBs. Each DHB is governed by a board of up to 11 members. DHB boards set the overall strategic direction for the DHB and monitor its performance. The Minister of Health appoints up to four members to each board, and the board's chair and deputy chair. Seven members are publicly elected every three years at the time of local government elections. DHBs have both a funding arm (which purchases services for the district) and a provider arm (largely hospitals).

DHBs are reliant on central government for almost all their funding. They operate in a complex environment of legislation, regulation and contracts with central government. While these place significant constraints on their policy and operational flexibility, some DHBs have managed to be quite innovative within these limits (Chapter 3).

However, partly because of this tight funding accountability to the Ministry of Health, the New Zealand public tends to consider the Minister of Health to be accountable for health services. As an institutional form, DHBs appear to be relatively ineffective in muting the political risks of the Minister of Health.

Local government

Significant responsibilities for social services are devolved to local and state governments in many other countries. Local government in New Zealand is much less involved in social services (such as education) than its counterparts in other jurisdictions, such as the United Kingdom.

That said, local government makes an important contribution to social services. Local Government New Zealand (LGNZ) submitted several examples:

- Social sector trials which are partnerships of government agencies, third sector agencies, local government and Iwi providers;
- The Mayors' Taskforce for Jobs which adapts funding from national programmes to address local circumstances;
- The provision of supported facilities that provide a base for local social service agencies, thus enhancing community access to services, reducing agency costs and improving inter-agency information flows; and
- The establishment of the Wellington Strategic Coordination Group which brings together the leaders of key central-government agencies, reduces duplication and agrees priorities. (LGNZ, sub. 124, p. 2)

Territorial authorities are often involved in social housing (LGNZ, sub. 124; Wellington City Council, sub. 43). Wellington and Christchurch City Councils are the second and third largest social landlords in New Zealand.

Contributions to social services are determined by councils in line with their priorities. Box 5.2 illustrates two different stances taken by councils.

Box 5.2 **Examples of different stances taken by councils**

Wellington City Council's stance

> Council projects support partnerships and programmes within communities and neighbourhoods as a way of building local community resilience, and working with our partners to ensure the city's social infrastructure supports vulnerable people in the city...
>
> The Council contributes $2.44M per annum to the social services sector … in Wellington City through contracts and project funding. Grants are given to projects that make a positive contribution to achieving the Council's outcomes. Funding focus areas are currently youth, building capability and capacity, increasing personal and community safely, encouraging health and well-being and increasing preparedness. (Wellington City Council, sub. 43, pp. 1–2)

Waimakariri District Council's stance

> The Council does not see itself as having a direct role in seeking contracts to provide social services. It does, however, consider that it can play a constructive role in support the locally based service providers by contributing information about the community, including the analysis of data from Censuses and administrative data relevant to service provision in the District. This information is used to support funding applications for grants from funders and/or to help to identify gaps in current services in the area. (Waimakariri District Council, sub. 75, p. 6)

Some submitters argued for an increased role for local government in social services (eg, Noelene Buckland, sub. 61). However, devolving responsibility for social services to territorial authorities would require a significant reshaping of the role of local authorities.

Although LGNZ (sub. 124, p. 3) has indicated limited interest in discussing the potential for locally pooled budgets in some areas (such as skill training), the Commission finds little reason to support the large-scale devolution of responsibilities for social services to local government.

Australia and the United Kingdom both have significant State and local government responsibility for social services, yet those countries' social services systems are reported to suffer from much the same systemic problems as New Zealand (eg, Haldenby, Harries & Olliff-Cooper, 2014; Harper et al., 2015). Devolving social service responsibilities to local government does not appear to be a solution to the problems identified in Chapter 4.

F5.2 The case for large-scale devolution of responsibilities for social services to local government does not appear strong in New Zealand. It would not resolve some significant problems of the current architecture.

That said, the Government should be open to councils choosing to take an expanded role in providing or coordinating social services for the populations they serve.

National (service-agency based) delegation

It is possible to delegate functions within government, rather than to communities of place or interest. This kind of delegation involves a structural separation between ministries and semi-autonomous entities. Delegation can improve on top-down control where delegated decision makers have better information and incentives to balance current and future interests. There are some good examples of such delegation.

Pharmac

An example in social services is Pharmac. The Government, through its normal budget process, allocates an overall budget each year to Pharmac. In turn Pharmac makes decisions about which pharmaceuticals and medical equipment the budget should be used to fund. It makes these decisions in line with clear cost-benefit criteria designed to maximise the impact on New Zealand health outcomes within the assigned budget. While Pharmac is responsible to the Minister for Health, its drug purchase decisions cannot be

overridden by the Minister. Such overrides require an Act of Parliament. The override has only been used once.

Housing New Zealand Corporation

Housing New Zealand Corporation (HNZC) is a statutory corporation established by the Housing Corporation Act 1974. It is a Crown Agency under the Crown Entities Act 2004. HNZC is governed by a board, which in turn is responsible to the Ministers of Housing and Finance. The Ministers communicate their policy requirements through a Letter of Expectations.

Ministers have used Letters of Expectations in the past to direct HNZC to build more state houses – without necessarily balancing competing operational demands such as maintenance. The Social Services Select Committee reported in 2008 that:

> Some of us are concerned that HNZC has focussed on acquiring new houses, rather than maintaining its existing stock. HNZC has estimated that it will cost approximately $2 billion to address deferred maintenance of State houses around the country over the next 10, possibly 15, years…
>
> We were interested to learn that the depreciation fund for housing stock was not specifically allocated to either maintenance or replacement, and that the Government was responsible for deciding on which of the two to spend more of the funds. HNZC noted that it was difficult to balance competing pressures on this matter, and that it was directed in this area by the priorities of the Government of the day. (Social Services Committee, 2008, p. 2)

In 2010, the Housing Shareholders Advisory Group noted that HNZC was under pressure, which was apparent in the "burgeoning maintenance liability, partly due to the diversion of funds to deliver state house numbers, the pre-eminent key performance indicator" (HSAG, 2010, p. 33).

HNZC, like DHBs, is an example of a decentralised structure based around existing infrastructure (in this case, state houses). Its structure as a Crown entity has given it a measure of independence in operational decision-making. HNZC has had independence in its operational decisions, but policy expectations may have reduced its effectiveness in managing the state housing stock (HSAG, 2010, p. 39).

The Reserve Bank, Commerce Commission and NZ Super Fund

The Reserve Bank of New Zealand has the job, devolved to it by Parliament, of conducting monetary policy (and prudential regulation of the financial sector). The Commerce Commission has been given a similar role in competition policy and the regulation of industries with monopoly or network characteristics. The case for assigning these entities independence in carrying out these roles is widely recognised. It largely frees decisions in these spheres – vital for the medium and long-run performance of the New Zealand economy – from the unhelpful influence of short-term political pressures.

A further example is the Guardians of New Zealand Superannuation (Box 5.3).

Box 5.3 **Guardians of New Zealand Superannuation – a "double arm's length" Crown entity**

The New Zealand Superannuation and Retirement Income Act 2001 established a fund to support the Government saving now in order to help pay for the future cost of providing universal superannuation.

The Act also created the *Guardians of New Zealand Superannuation*, an autonomous Crown entity charged with managing the fund.

> Sound governance is critical to maintaining stakeholder and public confidence in the Guardians and the Fund. As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Government, we have operational independence regarding investment decisions and are, instead, overseen by an independent Board.

Ministers can give the entity directions, but directions are constrained and must be transparent:

> The Minister of Finance may give directions to the Guardians regarding the Government's expectations of Fund performance – as long as directions are consistent with the duty to invest the Fund on a prudent, commercial basis. The Guardians must have regard to any direction from the Minister and all directions must be tabled in Parliament.

Source: NZ Super Fund, n.d.

Analysis

Pharmac and HNZC are both Crown Agents as defined in s 7 of the Crown Entities Act. Crown Agents have the least distance from Ministers of any kind of Crown entity.[23] The legal form is only one factor that influences this distance. The specification of decision-making independence in the entity's enabling legislation is perhaps more influential.

The Commission's 2014 report *Regulatory institutions and practices* noted that:

> Legal independence does not automatically lead to independence in practice. In particular, an agency's reputation and capability will influence the degree of independence it is accorded, regardless of legal designation. A regulator that is formally within ministerial control will, in practice, be able to act independently if it is held in high regard. A regulator that is formally independent but held in poor esteem by government or regulated firms will find their independence under threat, even with legal protections. (NZPC, 2014b, p. 223)

The Commission also found that "the choice of institutional form will be important as much in terms of what it signals around expected levels of agency independence, as for the legal protections associated with particular agency forms." (p. 249).

F5.3 Delegation of responsibility for social services to semi-autonomous government entities can improve on top-down control where such entities have better information, capability and incentives to make and implement decisions that maximise social returns.

Delegation to communities of interest

A further basis for decentralisation is communities of interest – people with a shared interest and identity that can be wider than living in the same place. The Whānau Ora Commissioning Agencies (Chapter 3; Appendix C) are an example of such delegation. Three agencies cover Pasifika, North Island Māori and South Island Māori. Chapter 13 contains a fuller discussion of how devolution might empower Māori

[23] In comparison, Autonomous Crown Entities need only have regard to government policy when directed by the responsible Minister, and Independent Crown Entities are generally independent of government policy.

communities, and examines several ways that Māori groups have chosen to become involved in the commissioning of social services.

Deaf people are another example of a community of interest:

> The term 'Deaf' is used to denote those people who identify themselves as part of a linguistic and cultural community and who are likely to use New Zealand Sign Language as their primary communication method. (Deaf Aotearoa, sub. 69, p. 1)

As a general principle, devolution to a community of interest should be initiated by the aspirations of that community, rather than by government. The Commission welcomes submissions on how different communities of interest would like to be further involved in commissioning decisions.

Q5.1 Which communities of interest would like to be part of greater devolution of service commissioning?

Co-governance

Co-governance involves agreements or structures that share responsibility and decision-making power. Co-governance in New Zealand is used more in the environment sector than in social services. Formal co-governance arrangements in New Zealand occur more often with Māori, and may or may not derive from the Treaty of Waitangi settlement process.

For example, the Te Hiku Social Development Accord (Chapter 3) is a co-governance arrangement, where the Crown and iwi in the Far North share responsibility for governance of local social services. Likewise, the Partnership Group with governance responsibilities for Whānau Ora consists of both ministers and iwi leaders. Chapter 13 includes examples of other iwi and Māori groups engaged in the governance of social services.

Social insurance

Social insurance is an insurance scheme organised by the state with compulsory membership. The Accident Compensation Corporation (ACC) is an example of a social insurer (Box 9.4 in Chapter 9).

Social insurance can mean different things in different contexts and different countries. Box 5.4 summarises some of the general features of social insurance schemes. Chapter 9 contains further discussion and examples.

Box 5.4 **General features of social insurance schemes**

A working group looked at social insurance models in 2002 as part of a report on future funding of health and disability services in New Zealand:

> The … social insurance model is hard to define, as examples of it vary considerably around the world. Finance is generally raised from taxes (or levies) on labour income that are compulsory, usually levied at a flat rate and capped at a maximum dollar limit. Entitlements are often more explicit and schemes tend to be more responsive to demand than general tax-financed systems. Another important distinction is that income compensation is often included in the insurance package as well as health services.
>
> Models that include some of these wider health-related costs can be more effective at getting people restored to health, or better supported, in a timely fashion. The accident compensation scheme (ACC) provides an excellent example of this type of model.
>
> Social insurance systems have their disadvantages, however, including more difficulty in controlling overall costs, funds being raised less equitably, less stability of revenue and higher administration costs. In practice, many social insurance systems around the world are topped-up by general tax-financing, which means that some of the advantages of the model are lost.

Source: MoH, 2002, pp. vi-vii.

The incentives facing social insurers

Ideally, devolved organisations should face strong incentives to intervene early to reduce future costs. Devolving to social insurers could fulfil this ideal. Social insurers face incentives to reduce the total cost of current and future claims. This can lead to three kinds of behaviour:

- investing in preventative actions (such as ACC's falls-prevention programme) to reduce the number of future claims;
- spending resources early on a claim, to reduce the long-term costs of that claim; and
- setting a "higher bar" for claims approval.

Social insurance schemes need to be carefully designed to enhance incentives for the first two behaviours. Competition among multiple insurers reduces the incentive for the third behaviour. Alternatively, criteria can be set in legislation.

There are some other significant challenges in the design of such social insurance, including how to determine premiums and rules for moving between insurers. Chapter 9 sets out the Commission's analysis of social insurance.

Conclusions on decentralisation

Decentralisation on all the bases noted above risks overlaps and fragmentation. Government needs to think this issue through carefully, and make careful choices as to the optimal configuration.

5.4 Choosing between architectures

One or many architectures?

No one architecture is likely to be a good fit for all social services, because of the wide variety of service characteristics and the wide variation in client needs for those services. Consequently, a social services system is likely to comprise multiple different architectures.

This creates a need to manage the boundaries between organisations (and the services they are responsible for) organised on different bases. Boundary management can be expensive for government and providers, and create confusion in all parts of the system. So it is desirable to limit boundaries, or at least minimise the number of clients adversely affected by them. Chapter 10 contains a fuller discussion of when service integration will and will not be valuable, and mechanisms to achieve it.

Comparing architectures

The crucial consideration in choosing between architectures is under which architecture decision makers have the authority, information, capability and incentives to make and implement decisions that maximise social returns.

Information technology (IT) is offering improved ways to move information and, to lesser extent, capability, within a system. This has affected, and will continue to affect, the best choice of architecture.

None of the architectures outlined in this section performs well for all needs and in all circumstances. And similarly, no architecture always performs poorly.

In the Commission's judgement, the social services system would be improved by greater and smarter use of delegation and devolution. These architectures often feature better incentives for encouraging innovation and improving social service outcomes.

R5.1 The Government should make greater and smarter use of delegation and devolution in the social services system. These architectures often feature better incentives for encouraging innovation and improving social services outcomes.

5.5 The enabling environment

There are some important roles that government cannot delegate. Government is the major funder of social services, and only Parliament, led by the government of the day, can legislate and assign regulatory powers. Government is responsible for creating the "enabling environment" for the social services system.

Three enablers are particularly relevant to improvements in social services: budget appropriations, data infrastructure, and regulation.

Budget appropriations

The budget appropriation system is determined by the Public Finance Act 1989 (PFA). This is the central piece of legislation in New Zealand for determining financial accountability. Another key piece of legislation is the State Sector Act 1988, which devolves responsibility to departmental chief executives for running their departments and for managing the resources allocated to those departments (Chapter 2).

These Acts (together with the Crown Entities Act) set up strong vertical budgeting and accountability arrangements. Those arrangements have traditionally made it hard for departmental chief executives to move funds within departments and between departments.

This system has both strengths and weaknesses. It is strong on accountability and delivering services specified in terms of outputs yet weaker on delivering outcomes. This weakness is due both to fragmentation of expenditure and to a lack of focus on, and information about, actual clients. This weakness has become more apparent over time, especially as hard-to-solve issues have persisted, despite efforts to tackle them.[24] There is a significant tension between narrowly specified budget appropriations, and efficient cross-service allocation and service integration.

The PFA and the State Sector Act were both amended in 2013 to provide more flexibility in the budget system and a greater focus on achieving better outcomes, while maintaining accountability and transparency (Box 5.5).

Box 5.5 **2013 changes to the Public Finance Act and the State Sector Act**

The legislative changes to the PFA included:

- the introduction of multi-category appropriations (MCAs);
- a requirement to report on what is intended to be achieved and what has been achieved with expenditure from appropriations; and
- a focus on results and outcomes.

The focus on results and outcomes was to help achieve the 10 Better Public Services targets adopted in 2012 (Chapter 2).

The State Sector Act was amended to enable public service chief executives' responsibilities to extend beyond their department's boundaries to create greater shared impact. In practice this has involved setting up cross-agency boards, such as the Social Sector Board (discussed in section 5.1).

The Multi-Category Appropriation (MCA) was introduced to support the Better Public Services results and to address budgetary fragmentation. An MCA is a mechanism to shift funding between different classes of expenditure for the purposes of "contributing to a single, overarching purpose".[25] MCAs allow appropriation ministers or those with delegated authority to move money between categories of expenditure. MCAs may have conditions and any large movements need ministerial sign off.

[24] For example, low educational achievement for Māori, Pacific Island and students from poorer homes (Education Counts, 2015).

[25] PFA s 7B (b).

Once an MCA is established, those with delegated authority can approve shifts in funding between what were separate expenditure categories (eg, "departmental" and "non-departmental"), thus enabling agencies to move funding flexibly and in response to data and information about how services for different clients are performing.

Not all submitters were convinced that the changes to the budget appropriation system would change purchasing practice:

> The amendments to the Public Finance Act are understood but at the moment are experienced as Wellington-centric with government officials regularly meeting with [each] other and collaborating. This is not being felt in the regions however where control and resource is held tightly by the relevant agencies. (Wise Group, sub. 41, p. 35).
>
> Siloed funding streams continue to be a hindrance to working in integrated and family centred ways where providers are only able to deliver what is specified in their contract despite being well placed to address a range of needs for a family. (Alliance Health Plus Trust, sub. 119, p. 3).

MCAs are a useful addition to budget structures, but they (and indeed any purely structural change) will not prove sufficient. In practice, the number of reallocations, or the speed of reallocations, may be limited.

F5.4 Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. But these mechanisms are not sufficient on their own to provide flexibility at the interface between providers and clients.

Improved measurement of service cost and impact on client outcomes – such as that being pursued with the Investment Approach – may support further delegation of authority to shift funding between budget appropriations. Improved measurement is necessary to support accountability for outcomes. Greater visibility of *what* is or is not being achieved may lead to less focus on *how much* has been spent.

F5.5 Improved measurement of service cost and impact on client outcomes – such as that being pursued with the Investment Approach – may support further delegation of authority to shift funding between budget appropriations.

Data infrastructure

Chapter 8 discusses the potential of data analytics in much more detail, but briefly, data infrastructure that permits better sharing of relevant information across all social services organisations would support better service integration, improved targeting, and more efficient service delivery. It also permits better and easier monitoring and evaluation of service performance.

The data infrastructure needs to be well designed to encourage trust between system participants and to achieve an appropriate balance between efficiency, data accessibility, data quality and privacy. This is also discussed further in Chapter 8.

Regulation

Regulation can affect social services provision in intended and unintended ways.

Some submitters were concerned that government regulation is making it increasingly difficult and costly to provide social services using volunteers. Submitters identified the importance of volunteers for social services and for communities more generally (Box 5.6)

Box 5.6 **Submissions on importance of volunteers**

> Volunteers are a bridge between service users. They are embedded within communities, they do help out of a real interest in the area and build networks and experiences in those interest areas. They truly represent the communities we work in, and can make valuable contributions to understanding best ways to address need – often in a way that paid professionals may not. Volunteering promotes participation through activities and advocacy, can lead to a more dynamic community by enhancing work of social services (Volunteering New Zealand, sub. 86, p. 5)
>
> Volunteering has significant benefits to volunteers also – research consistently shows that giving is good for mental health – volunteering has always been an essential part of New Zealand's history – there is a risk in the increasing professionalisation of the community and voluntary sector and increasing compliance expectations that the goodwill associated with volunteering may be lost as volunteers get frustrated with increased compliance expectations (Age Concern New Zealand, sub. 100, p. 3)

Government regulation is having consequences for voluntary provision. Several submitters raised concerns about recent and proposed changes in legislation:

> Recent changes to legislation such as the Vulnerable Children's Act, and the need for Police vetting along with the changes in Health and Safety and the Worksafe environment may influence provider choices in utilising volunteers due to the increased risk that individuals and organisations are liable for. (Community Care Trust, sub. 96, p. 10)

Other submitters were also concerned about the proposed health and safety reform on their organisations for governance and operations, for example:

> The difficulty many non profits face is how to attract the right calibre of trustee for their organisation – people with the skills, knowledge and expertise that can drive the changes. And even if the trustees are skilled, competent individuals, the time that they can give is often limited. Adding to the difficulty in attracting good trustees is the personal liability that trustees can face and this will become even more difficult once the new Health and Safety Act comes into force… (The Raglan House, sub. 24, p. 5)[26]

These regulatory effects (proposed or actual) on voluntary work are likely unintended, yet they can create real barriers. Volunteers may be deterred by what they see as unnecessary security, training and supervision requirements. And the costs of providing that security, training and supervision discourages NFPs from using volunteers. Further, any increased personal liability on those in governance roles is likely to make NFPs more risk averse and thus even more reluctant to use volunteers.

R5.2 The Government should take account of the role and value of volunteers as an important part of social services in drafting new legislation to ensure that volunteers are not crowded out by new regulation. The Government should pay particular attention to this issue when finalising the Health and Safety Reform Bill.

5.6 System stewardship

Institutional architecture and the enabling environment require active management if social services are to be effective. There is currently little conscious oversight of the social services system as a whole:

> Each part of the system currently looks after its own best interests. What is missing is an appropriate mechanism that takes responsibility [to] oversee the system as a whole. By this we do not mean tight or cumbersome regulation. (Barnardos, sub. 12, p. 11)

The responsibility to oversee the system as a whole is encompassed by the idea of *system stewardship*. Stewardship, in this sense, is an overarching responsibility for the monitoring, planning and management of

[26] See also New Zealand Red Cross (sub. 94), Presbyterian Support New Zealand (sub. 76) and Community Networks Aotearoa (sub. 31).

resources in such a way as to maintain and improve system performance.[27] Relevant activities include monitoring system performance, identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change.

Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government is the only participant that can take on responsibility for system stewardship.

Government needs to take responsibility for system stewardship, and for making considered decisions that shape the system. Oversight of the system will require an actor with data, research and evaluation capacity, and advisory capability.

Current institutions

Some current institutions play a role in overseeing the social services system.

Cabinet Social Policy Committee

The Social Policy Committee is one of 10 Cabinet committees that report to the Cabinet. The Committee has 20 members, and is currently chaired by the Hon. Paula Bennett. It covers 22 portfolios. Its terms of reference are to "consider social policy issues, including education, health, justice and law and order, welfare reform, child poverty and vulnerable children" (DPMC, n.d.).

Social Sector Board

The Social Sector Board comprises the chief executives of the Ministries of Social Development, Education, Health, Corrections, Justice, Business, Innovation and Employment, Pacific Island Affairs, Te Puni Kōkiri, Statistics New Zealand, New Zealand Police and the New Zealand Housing Corporation.[28] The Board is chaired by the Chief Executive of MSD and reports to the Cabinet Social Policy Committee. It leads cross-agency work in seven areas:

- Budget 2015 population approach;
- material deprivation and service response to families with complex needs;
- Social Sector Trials;
- Children's Action Plan;
- data analytics and integration;
- social sector integration, horizontal governance and contracting; and
- delivery of Better Public Services results.

The Board is supported by a deputy chief executives group (pers. comm., 14 April 2015).

Justice Sector

The Ministry of Justice, the New Zealand Police, the Department of Corrections, the Crown Law Office, the Serious Fraud Office and Child Youth and Family work as a "sector" to make society safer and provide accessible justice services. The sector collaborates to reduce crime and enhance public safety; and to provide access to justice by delivering modern, effective and affordable services (Ministry of Justice, n.d.).

A system steward

The current arrangements fall somewhat short of what is required of a system steward. Chapter 14 proposes an "Office for Social Services". One task for this office would be to play a core role in system stewardship.

[27] The related topic of *service stewardship* is covered in Chapter 6.

[28] The Board was formerly the Social Sector Forum.

F5.6 Institutional architecture and the enabling environment require active management if social services are to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall somewhat short of what is required of a system steward.

R5.3 Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government needs to take responsibility for system stewardship, and for making considered decisions that shape the system. This includes the overarching responsibility for monitoring, planning and managing resources in such a way as to maintain and improve system performance.

6 Commissioning

Key points

- *Commissioning* is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. This report emphasises that a wider range of skills and capabilities are required for commissioning than suggested by the more commonly used terms *procurement* and *purchasing*, and that a wider range of options are available to commissioning organisations than contracting out and in-house delivery.
- Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices. They should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider-market sustainability and interactions with other services.
- The commissioning of social services is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way. Commissioning organisations should actively build the required skills, capability and knowledge base. Commissioning requires careful design, reflecting the characteristics of a particular service.
- A key commissioning task is choosing an appropriate *service model*. The model should be chosen to match policy objectives, and the characteristics of the service and its intended clients. Considering a wide range of models increases the likelihood of a better match, and better service outcomes as a consequence.
- This chapter explores seven conceptual service models, and their strengths and weaknesses.
    - *In-house provision* is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers.
    - *Contracting out* is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients.
    - *Managed markets* allow multiple providers to compete for market share. They can encourage efficiency, investment and innovation, which are difficult to achieve in non-contestable systems.
    - *Trust* and *shared goals* models capitalise on the intrinsic motivation of provider employees and organisations. Shared goals models also promote common ownership of problems and goals, and so encourage constructive and integrated problem solving and creative solutions.
    - *Client-directed budgets* and *voucher* models offer much when the client (or their agent) is best placed to make service consumption decisions. These models motivate providers to offer good value to clients, encourage innovation and empower service clients.
- There is significant scope to use a wider range of service models in New Zealand. Client choice should be built into service design to the extent appropriate, even where client-directed budgets and voucher models are infeasible.
- Many of these models require a mental shift for government, from being in direct control to *service stewardship.* This requires ongoing monitoring of service performance, and re-visiting design choices as necessary to improve service outcomes.

- Government should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decisions. Legitimate options for funding include full funding, contributory funding, tied and untied grants, and no funding.
- Government should fully fund those services for which it desires full control over service specification. Payments should be set at a level that allows an efficient provider to make a sustainable return on resources deployed, and so encourage investment by existing providers and entry by new providers.

Commissioning is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. Chapter 5 addressed the important question of *who* best commissions social services. This chapter deals with the *how* and the *what* of commissioning. While these questions are not completely independent, this report deals with them separately to emphasise that both decisions need to be made, and it is best that they are made explicitly.

A key commissioning task is choosing a service model appropriate to the circumstances. Section 6.2 introduces seven models. All might be applicable in different circumstances. Two service models (client-directed budgets and vouchers) are further detailed in Chapter 11. Purchasing and contracts are important features of contracting-out and managed-market models, and are relevant to some other models. These topics are examined in Chapter 12.

Section 6.4 examines the tasks that face the commissioning organisation, and the skills required for successful service commissioning.

The topic of service stewardship is introduced in section 6.5. Stewardship includes ensuring healthy, capable and sustainable providers. The prices that government pays for services is an important factor, as government is the major funder and purchaser of social services,

6.1 From social objectives to service delivery

Governments need a process to turn citizen expectations and political commitments into tangible service delivery. Commissioning is a key element of that process.

Commissioning

Commissioning is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services.[29] This report uses the term *commissioning* to emphasise that a wider range of skills and capabilities are required than suggested by the more commonly used terms *procurement* and *purchasing*, and that a wider range of options are available to commissioning organisations than contracting out and in-house delivery.

Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices. They should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider market sustainability and interactions with other services.

Commissioning does not include the actual purchasing or delivery of services. It does include *service stewardship* – ongoing monitoring of service performance, and re-visiting design choices as necessary to improve performance.

This report separates out commissioning tasks from those involved in institutional architecture (Chapter 5), data systems (Chapter 8), service integration (Chapter 10), and purchasing and contracting (Chapter 12).

[29] Definitions of *commissioning* vary widely. Narrower definitions include procurement, project initiation or testing prior to final delivery. The Productivity Commission sought a definition that is consistent with the inquiry's terms of reference, conceptually sound and able to be operationalised. This definition was influenced by relevant literature, including Alder (2010) and Sturgess (2012).

While this separation is useful for analytical and presentational purposes, the tasks are not independent. For example, commissioning decisions should be informed by the purchasing, contracting and delivery issues that arise under different service models.

Depending on the institutional architecture in place, commissioning tasks may be undertaken by government agencies, Crown entities or organisations independent of government. In many cases it will require the involvement and cooperation of multiple organisations.

An important commissioning task is considering the needs of clients who require multiple services, and the appropriate grouping of services. Commissioning services on a service-by-service basis might be optimal for the specific services, but runs the risk of an inefficient and ineffective overall system. There are complex interactions between services, and economies (sometimes diseconomies) of scale and scope in their provision.

The commissioning of social services is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way. Commissioning organisations should actively build the required skills, capability and knowledge base.

Mistakes during commissioning ripple through the system until they reach the frontline of service delivery. Yet New Zealand's approach to commissioning is patchy at best (Chapter 2; Chapter 4). Too frequently government agencies commission services in isolation of one another, resulting in a disjointed tapestry of contracts and forcing clients to navigate multiple eligibility procedures. Bureaucratic processes are used to select providers and offer providers little reward for good performance. The tendency of agencies to roll over contracts, in some cases for decades, makes it is difficult for new providers to enter the market. Clear pricing principles are lacking. And it is often unclear whether government is "purchasing a service" or simply making a "contribution" to service delivery.

F6.1 Effective commissioning is fundamental to well-functioning social services. It is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way.

Purchasing and contracting

Purchasing is the process of selecting providers. It includes calling for expressions of interest to supply social services, evaluating proposals from potential providers, completing due diligence, negotiating the terms of the contract and awarding the contract.

A contract is a formal agreement that commits the parties to meet specified obligations. For a contract to be useful, it needs to specify those obligations clearly and to facilitate subsequent measurement. Specification matters for the purchaser, as otherwise it cannot be sure that it is not wasting its money. It matters similarly for the contractor, as it may need to prove that it has fulfilled the contract.

Chapter 12 covers purchasing and contracting issues.

6.2 Choosing a service model

A key commissioning task is choosing an appropriate *service model*. The model should be chosen to match policy objectives, and the characteristics of the service and its intended clients. Considering a wide range of models increases the likelihood of a better match, and better service outcomes as a consequence.

Over time much thought and energy have been applied to the "make vs. buy" question – whether a task is best undertaken in-house or contracted out. Yet this question, while important, frames things very narrowly, and risks missing the most effective service model.

Models are useful to help understand real-world observations, and as a basis for discussion of the pros and cons of different ways of organising social services.

This section explores seven conceptual service models (Table 6.1). Some models are only applicable to relatively limited circumstances.

Each service model has strengths and weaknesses. The weaknesses are such that pure examples of each model are relatively rare. Those commissioning services typically attempt to reduce the consequences of specific weaknesses by adopting additional features – often those present in other models.

Table 6.1 Service models with examples

Service model	Example	Further information on example
In-house provision	Employment services	Chapter 3; Appendix B
Contracting out	Youth services	Chapter 3; Appendix B
Managed markets	Employment services in Australia	Chapter 3; Appendix B
Trust	General practice[1]	
Shared goals	Canterbury Clinical Network	Chapter 3; Appendix E
Client-directed budgets	Enabling Good Lives	Chapter 11; Appendix D
Vouchers	Early childhood education	Chapter 11

Notes:

1. General practice is also an example of a voucher system, as subsidy payments from government follow client choices of GP.

In New Zealand, voucher models are common in education but rare elsewhere. The Ministry of Social Development (MSD) and the Department of Corrections use in-house provision and contracting out almost exclusively. Trust models and in-house provision dominate in healthcare. Managed markets are all but absent, and client-directed budgets are rare.

There is scope – and likely benefit – for commissioning organisations to make use of a wider range of service models, as there is great diversity across the social services system.

In-house provision

Direct delivery by government agencies is optimal when the costs of contracted delivery are prohibitively high (Williamson, 1999), or there is significant value in having a government provider in competition with non-government providers.

In-house provision is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers.

Formal contracts between the agency and its internal delivery arm make costs and expectations explicit. They should be mandatory when in-house government providers compete directly with non-government providers.

R6.1 Formal contracts between an agency and its in-house service delivery arm make costs and expectations explicit. They should be mandatory when that delivery arm competes with non-government providers, and are desirable in other cases.

Commissioning agencies (or at least their staff) may prefer in-house provision. Such a preference could determine the choice of in-house provision over another more effective or efficient option. In the interests of improving outcomes from social services, it is important that in-house provision is treated neutrally in comparison with other service models.

R6.2 Commissioning organisations should ensure that in-house provision is treated on a neutral basis when compared to contracting out and other service models. This requires independence in decision-making processes. In-house provision should be subject to the same transparency, performance monitoring and reporting requirements as would apply to an external provider.

Contracting out

Contracting out is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients.

Contracting out is the primary service model used for non-government provision in New Zealand. Many of the problems in social services reported in Chapters 2 and 4 can be attributed to the overuse and poor use of this service model.

Providers face a single purchaser, able to exert power in various ways, including through bureaucracy and control over funding. This power is countered (at least to some extent) by the political influence of providers, often wielded through the media. This political influence will often be exerted to lock in provider contracts.

High levels of control dampen bottom-up innovation. Top-down innovation is possible, but is often constrained by highly specific contracts and risk aversion.

Contracting out does little to overcome the problems of monopoly supply that come with in-house provision. Clients get little or no choice over their provider.[30] Competition between providers only happens when contracts are re-tendered. That competition can be intense; for example, when loss of a tender would threaten a provider's viability.

Competition can also be largely absent; for example, when previous tender rounds have resulted in only a single provider being capable of providing the service. It can also be absent if there are substantial economies of scale in provision, because, for example, of a requirement for substantial capital investment.

> The Blind Foundation is the major supplier of vision rehabilitation services in New Zealand… No other agency offers the same range of integrated services or has the capital investment or intellectual property to be able to effectively compete with the Blind Foundation on a major scale at this time. (Blind Foundation, sub. 16, p. 22)

Conducting a tendering process when there is only one realistic tenderer is likely a wasteful process. Direct negotiation might be preferable. However, purchasers should remain alert to the possibility of new entrants.

Some problems of contracting out might be resolved through increased use of contracting for outcomes (Box 6.1).

Box 6.1 The challenge of contracting for outcomes

Chapter 2 identified that the typical service models in New Zealand were in-house delivery and contracting for outputs in a tendering environment.

The main problems with contracting for outputs are that:

- contracts are overly prescriptive – dampening experimentation, flexible tailoring of services to client need, and efficient resource allocation;

[30] Providers compete for contracts allocated by government agencies. Typically the service volume or market share of a provider is fixed for the duration of the contract (Chapter 2). This may allow some client choice of provider, though such choice is incidental rather than central to the service model.

- the specified outputs are not necessarily aligned with the outcomes[31] actually sought by the contracting agency; and
- performance incentives are weak.

When compared to contracting for outputs, contracting for outcomes has two essential attributes:

- performance incentives based on outcomes measures; and
- reduced prescription.

Contracting for outcomes (and more specifically, payment for outcomes) is attractive to government because it strengthens performance incentives. And it is attractive to providers because it reduces prescription. But at the same time it may be unattractive to government if reduced prescription increases political risk, and to providers if performance incentives increase financial risk. Given that government is (politically) risk averse, and providers – especially smaller not-for-profits (NFPs) – are (financially) risk averse, risk aversion can win out, with both parties preferring the less risky option of specifying contracts in terms of outputs.

If outcome-based contracts are unrealistic, this does not excuse government (or providers) from developing clear intervention logic, from measuring outcomes, and from being clear and upfront about the purpose of the contract and using that purpose as a basis for discussion aimed at improvement. This report refers to such contracts as *outcome-focused contracts*, even though the actual contracts may be specified in terms of outputs.

Contracting out is likely to remain a significant feature of government-funded social services. It is important that it is done well. Chapter 12 covers the issues involved in contracting out, and recommends ways to improve purchasing and contracting processes.

Managed markets

Managed markets allow multiple providers to compete for market share. Social services are not regular "markets", so market share needs to be set administratively rather than implicitly through the actions of providers and clients.

Employment services in Australia is a good example of a managed market (Chapter 3; Appendix B). Around five providers compete in each geographic service area. Market share is initially set through a tender process; after that it changes as clients are allocated on the basis of published performance ratings, and through explicit client choices. Prices and service standards are set by government.

The recently-established social housing market is a New Zealand example (Chapter 3).

Managed markets are complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

Providers have some flexibility as to how they provide services and how they package services for particular clients. This, combined with rewards based on performance, can encourage innovation.

The employment services system in Australia has tended to accrete rules over time, and become over-specified, reducing provider flexibility (Appendix B). This may reflect the fact that it is embedded in a top-down control architecture. The solution applied to date could be described as a "system reset" – re-thinking and re-establishing the system every six years or so.

[31] *Outcomes* in this context are *end goals* (where they are measurable) or *intermediate outcomes* (where those are more practical to measure, and a clear logic links the two).

Managed markets also incentivise better performance by providers – relative to contracting out – to the benefit of clients and funders. This happens though the ongoing competition for market share. However, these incentives can also encourage providers to "game" the system (ie, find ways to increase their income without improving client outcomes).[32]

Competition for market share is on the basis of quality rather than price.[33] So information about quality is important to this service model. Commissioning organisations typically collect and publish information on provider performance and service quality. That information can be used to allocate market share or to influence client choice of providers.

Relative to contracting out, managed markets can reduce the financial risks of providers. They support gradual changes in market share, allowing more time and opportunity for providers to react to signals of poor performance. This is different from contracting out, where the first signal of poor performance can be the loss of a contract, with a consequential harsh transition from 100% to nil market share. Similarly, managed markets allow for gradual entry by new providers.

By lowering financial risk and incentivising better performance through market share, managed markets can encourage investment and innovation.

F6.2

Managed markets – in which providers compete for market share – are likely to stimulate better performance and more innovation than where services are simply contracted out. They reduce the financial risks of providers, as they allow more time and opportunity to react to signals of poor performance (relative to loss of contract).

However, managed markets are complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

Trust

The *trust* model (Le Grand, 2007) describes the provision of social services where (usually professional) providers are trusted to design and deliver the service that clients need, with minimal oversight and control by funders.

It reflects a view that only those in certain professions and/or who work closely with clients really understand the needs of those clients. According to this view, intensive oversight, control and measurement are counterproductive. They likely reduce the motivation of professional and voluntary staff, detract from service quality and reduce the tailoring of services to individual client needs.

Trust models rely on ethical behaviour. In practice, some service providers may exploit opportunities for personal benefit. This is one reason that trust models are usually combined with occupational regulation. Trust models are not inherently equitable, or responsive to client needs (Le Grand, 2007).

Trust models assume that the interests of clients, professionals, provider organisations and funders coincide. Many provider organisations would prefer untied grant funding, reflecting their "trusted" role. However, untied grant funding does not necessarily suit funders, as they are accountable to others (eg, taxpayers, donors) for their spending.

Prices and competition for clients play relatively minor roles in trust models. Trust models do not generate information on service cost, client need or service effectiveness in a form that can be aggregated and used by funders to allocate their funds so as to achieve the best overall outcomes. Lacking this information, funding may end up being allocated though a contest of advocacy – rewarding the most effective advocates over those who might be more deserving on more objective criteria.

[32] See Besser (2012) for an example affecting employment services in Australia. Also see the discussion of cream skimming and parking in section 6.4.

[33] At least in theory, a managed market could allow for variable client co-payments. This would bring in an element of competition on the basis of price.

One response by funding agencies is to adopt complex formulas that incorporate measures of population needs and the cost of servicing that population. However, such formula-based funding creates little incentive to improve service.[34]

Trust models feature prominently in the social services landscape. In New Zealand services are generally organised along the lines of professions, much like the system in the United Kingdom:

> The pattern of public service providers is still largely very traditional in structure and culture. It is still fundamentally based on professions demarcated in Georgian times (the constable, the school teacher, the turnpike engineer, the social worker, the surgeons versus the apothecaries, the secular academics, the nurse, etc.) which are organised into Victorian institutions (the library, the police station, the town hall, the city universities, the free school, the hospital, the charitable housing, etc.), and which are funded and governed in a 1940s settlement (the welfare state, the NHS, national control over local services, education entitlements, social housing, etc.). (Downey, Kirby & Sherlock, 2010, pp. 7–8)

Organisations based on professions have significant advantages, which goes some way to explaining their durability. These advantages include scale, specialisation and the ability to develop and retain technical expertise. However, such organisations can suffer from professional "capture", elevating the interests of professionals over that of clients or the public in general. They also tend to generate cost pressures as professional staff focus on getting the best services for their own clients, while ignoring the overall budget.

Trust models may perform well in terms of service integration within the boundaries of a single profession, but poorly when integration across those boundaries would be useful.

The weaknesses of trust models can be addressed to some extent by peer monitoring or regulatory oversight, mechanisms to increase client voice and the imposition of hard budget limits.

F6.3 Trust models capitalise on the intrinsic motivation and professional behaviour of providers. These models require careful design to ensure sufficient peer monitoring and regulatory oversight, and work best with hard budget limits and strong client voice.

Shared goals

The shared goals service model reflect a view that complex social problems are best addressed by the organisations and social services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

The model emphasises that achieving good outcomes often depends on service integration and its ability to:

- reduce client and provider costs (eg, fewer and better sequenced appointments);
- create better outcomes for clients (eg, through adapting service offerings to the needs of specific clients); and
- reduce overall system costs (eg, when early intervention avoids subsequent hospitalisation).

The Canterbury Clinical Network (CCN) is an example of a shared goals model (Chapter 3). CCN is a consortium of healthcare leaders hosted at Pegasus Health (a Primary Health Organisation), governed by a group of health and business leaders. It has only a few employees and draws resources from across the Canterbury health system. Clinicians lead CCN's project work.

Shared goals models capitalise on the intrinsic motivation of provider employees and organisations. Participants take greater ownership and have greater commitment when they set their own goals and actions, relative to when goals and actions are specified from "above".

[34] Formula-based funding can provide incentives for providers to invest in their clients' longer-term wellbeing. To have this effect, providers need to face reduced future costs as a consequence of making such investments. GPs, for example, have relatively stable lists of enrolled clients, and receive the bulk of their government funding on a per-client basis. A successful early intervention by a GP will reduce future consultations, and therefore their costs.

Service integration is difficult to achieve between organisations with separate goals, cultures, budgets and accountabilities (Chapter 10). Gaining and sustaining service integration where one or more organisation has effective veto power requires the creation of shared goals – and ongoing commitment to those goals by organisations with separate governance and priorities. The common ownership of problems and goals encourages constructive and integrated problem solving and creative solutions.

In practice, services using this model exist in a wider environment that includes funders with their own priorities and accountabilities. Organisations commissioning services using a shared-goal models need to set high-level goals within a broad performance-measurement framework that is acceptable to those participating in shared goal setting. Yet it must leave them room to develop their own compatible, but subsidiary goals and measures. Expert Advisory Group (2014) provided an example of such a framework.

Collective Impact is an approach that has many features in common with this model (Chapter 3). Collective Impact emphasises that goals need to be measureable, progress against those goals need to be transparent, and that participants need to hold each other to account.

Shared goals models share weaknesses with trust models. They similarly require peer monitoring or regulatory oversight, mechanisms to increase client voice and the imposition of hard budget limits.

Shared goals models can be costly to create and maintain. Success appears to be situation and personnel specific, and working examples can be difficult to replicate. What has worked well in one place may well be thwarted in another, for example, by a group with veto power.

F6.4

The *shared goals* service model reflects a view that complex social problems are best addressed by the organisations and social-services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

This service model promotes common ownership of problems and goals, and so encourages constructive and integrated problem solving and creative solutions.

Organisations commissioning services using a shared goals model need to set high-level goals within a broad performance-measurement framework that is acceptable to those participating in shared goal setting, and leave them room to develop their own compatible, but subsidiary goals and measures.

Client-directed budgets

Client-directed budgets offer much when the client (or their agent) is best placed to make service consumption decisions. This service model motivates providers to offer good value to clients, encourages innovation and empowers service clients.

Client-directed budgets and voucher service models have many similar characteristics. This report refers to them collectively as *client-directed service models*. They require either an informed, motivated client to make decisions, or an agent that can be trusted to decide on the client's behalf. These models, the specific conditions under which they should be applied, and relevant design issues are covered in more detail in Chapter 11.

The essential difference between client-directed budgets and vouchers is that in the former the client is allocated a specific amount of money – a *budget* – and they can divide that budget as they see fit to purchase the best mix of services for them. By contrast, a *voucher* is an entitlement to a particular service offered by multiple service providers. The client gets to choose the provider, but the voucher cannot be divided.

Le Grand (2007) presented a case for a clear preference for these service models, provided that design challenges are overcome and a real choice between providers is offered to clients. Le Grand's preference is based on the model's ability to be equitable, efficient and responsive, and to generate the highest client benefits.

Design challenges include that clients may lack the information required to make informed choices, or travel costs may constrain their options. Providers may collude or cherry pick.[35] Budget setting and the allocation of budgets to clients are difficult tasks and may become highly politicised.

Client-directed service models allow good providers to expand at the expense of poor providers. In so doing, they encourage providers to be responsive and efficient. Unlike most of the other models, they encourage investment and bottom-up experimentation. Providers benefit from being able to supply a mix of quality and types of service better matched to what their clients want.

Client-directed budgets support gradual changes in market share and allow for gradual entry by new providers. This reduces the financial risks of providers (relative to a contracting-out service model).

Chapter 11 explores client-directed service models in more detail.

Vouchers

Client choice can also be relevant where there are multiple providers of the same "service".[36] Essentially, clients have an entitlement, and the payment associated with that entitlement follows the client's choice. Such arrangements are generally referred to as *voucher* systems, even though the "voucher" is conceptual rather than physical.

Tertiary education provides a good example – eligible citizens and residents have an entitlement to enrol for a bachelor's degree at a New Zealand tertiary institution of their choice. They are free to choose when and with whom they enrol. The institution's funding from government reflects their choice.

Early childhood education provides another example. The government subsidises services for every enrolled child. The subsidy is paid direct to the provider.

General practice is a further example of a voucher system, as subsidy payments from government follow client choices of GP. Many clients face a co-payment on top of that subsidy.

START suggested that vouchers could be used for those recovering from sexual violence:

> Services in the crisis space need to be demand driven but recovery services could operate on a voucher system whereby a professional assessment of individual need would result in the provision of vouchers to 'purchase' services of choice. Service providers could be accredited by a Government department for quality assurance in much the same way that the present MSD accreditation and auditing processes operate. (sub. 121, p. 9)

The Bay of Plenty Community Response Forum was less positive about vouchers (sub. 53). The Post Primary Teachers' Association identified that parental school choice can lead to schools being more socially segregated (sub. 88). Section 6.3 and Chapter 11 discuss the wider application of vouchers.

Client-directed service models are not meaningful unless the client can choose services, providers or both. Where those models are not applicable, it still makes sense to provide client choice to the extent feasible. Even control over small things can make a big difference to clients, such as choosing which professional they work with, or being offered their choice of appointment times.

Comparing service models

Government is the dominant provider and purchaser of social services. This carries with it the usual risks of a monopoly, in particular costly production and low levels of innovation. Diversity and contestability of supply can help address these risks (Sturgess, 2012).

A basic distinction between service models is the degree and type of contestability in provision. This varies from no contestability (in-house provision, trust, shared goals) to contestability based on the funder's

[35] "Cherry pick" in this context means providers taking actiosn to ensure that, on average, they deal with easier or more profitable clients.

[36] The services are not necessarily identical. For example, different universities offer different bundles of courses that make up a degree.

assessment of performance (contracting out, managed markets) to contestability based on clients' assessment of performance (client-directed budgets, vouchers).

Contestability by itself is only valuable if the "contest" is on useful measures of performance:

> As the price is set by Government and reliable performance data is rare, contestability in the social services sector has traditionally been a question of character, not a competition for excellence. (Methodist Mission, sub. 4, p. 18)

Service models where contestability is based on client assessment of performance are less likely to have this problem. It remains a problem for the other service models. This suggests those models need to be supplemented by measures to improve the collection, dissemination and analysis of performance data.

Table 6.2 summarises the service models, outlining the problems they seek to address, key assumptions and their strengths and weaknesses.

Table 6.2 Service models: strengths and weaknesses

Model	Problems addressed	Assumptions	Strengths	Weaknesses
In-house provision	Accountability for performance	Knowledge at the centre, bureaucrats can best judge quality	Performance improvement (short term), political responsiveness, uniform delivery	Political allocation, risk aversion, lack of innovation, lack of adaptation to client or local conditions
Contracting out	Accountability for performance, insufficient in-house skills	Knowledge at the centre, bureaucrats can best judge quality, contestability through tendering improves performance	Performance improvement (short term), some adaptation to client or local conditions, specialisation	Over prescription, political allocation, risk aversion, lack of innovation, limited performance feedback
Managed markets	Accountability for performance	Competition improves performance	Efficiency, investment, innovation, reduced financial risk for providers	Complexity, setup costs, gaming
Trust	Unmeasured inputs, intrinsic motivation, quality shading	Interests of providers, clients and funders coincide; providers best judge of quality	Intrinsic motivation	Performance measurement, accountability, innovation, efficient resource allocation
Shared goals	Lack of knowledge at the centre, siloed service design	Shared information and decision making improves performance	Integration, adaptability, commitment, intrinsic motivation	Reproducibility, accountability, transparency, sustainability
Client-directed budgets	Client rights, client preferences	Competition improves performance, clients can judge quality	Efficiency, client allocation, equity, innovation	Difficult market design, boundary issues, client knowledge
Vouchers	Client preferences	Competition improves performance, clients can judge quality, multiple providers	Efficiency, client preferences, equity, innovation	Cream skimming, competition on wrong dimensions

Choosing the "best" service model

Table 6.2 emphasises that there is no widely-applicable "best" model. Rather, it is important to match the model to the service. One challenge is to do this with an eye towards overall system efficiency. It is easy, for example, to concentrate on reducing administration costs and miss bigger opportunities for early intervention or service innovation.

R6.3 Commissioning agencies should consider a wide range of service models, and carefully select a model that best matches the characteristics of the service being commissioned.

Social services should, to the extent feasible and appropriate, respect the preferences of clients and value their time. For these reasons, the Commission generally leans towards client-directed service models, all else equal. The Commission believes that commissioning organisations should always consider client-directed service models. However, these models are not always applicable. Where other service models are chosen, client choice should be supported to the extent feasible.

R6.4 Commissioning agencies should always consider client-directed service models, as they empower individuals and lead to more effective services. However, those models are not always applicable. Where other service models are chosen, client choice should be supported to the extent feasible.

Interaction with institutional architecture

Splitting the *who* and the *how* of commissioning into two chapters may appear somewhat arbitrary, as noted in Chapter 5. The two steps can be taken, and may be best taken, sequentially. However, the best choice of service model may be affected by who is undertaking the commissioning. This report does not consider that question in detail. But some predictions can be reasonably made.

- For architectures with top-down control, it is important to increase diversity of experiments, providers and judges of quality. This would favour the managed markets, trust, shared goals, client-directed budgets and voucher service models.
- As architectures get more devolved, contracting out becomes less problematic.
- For architectures with competition between commissioning agencies, in-house provision becomes less problematic.

Changing service models

Many of these models require a mental shift for government, from being in direct control to stewarding a system and enabling it to function well.[37] Implementing a change in service model may require enabling legislation and extensive re-organisation of existing arrangements.

For example, Australia's National Disability Insurance Scheme moves disability support from a combination of in-house provision and contracting out to a client-directed budget service model. Implementation required a new agreement between federal and state governments, new legislation and the creation of a new agency (Chapter 3).

Chapter 14 discusses wider implementation issues.

[37] *System stewardship* is discussed in Chapter 5. The related topic of *service stewardship* is covered in section 6.5.

6.3 Innovative service models

This section examines two innovative service models. While currently unproven, both show promise.

Social bonds

A social bond is a contract between the Government, social services providers and investors in which the Government commits to pay for improved social outcomes. Payment depends on the outcomes achieved that can be attributed to the social services programme (Chapter 3). Social bonds provide strong incentives and flexibility for investors and providers to find more effective ways of delivering social services.

The investors might appear somewhat redundant in this model – or just another source of cost:

> There is, however, inherent additional expenditure in the form of the intermediary and independent assessor costs and the "financial return" paid to investors when delivery is successful. Given that government is set on no additional investment in the sector, these extra costs are likely to be met from within the existing quantum of funds already in play. (Methodist Mission, sub. 4, p. 7)

> Given that income from social services is largely from the State, and given that the State can raise finance more cheaply that the private sector, there are limited opportunities for profit that attract private finance to social services. (Public Service Association, sub. 108, p. 15)

Bringing investors into social bonds has three main benefits. First, they are less risk averse than either government or typical providers. Second, they add a new party to the mix, with a strong interest in achieving better outcomes. Third, they can bring new skills and new ways of thinking about old problems. Should these benefits outweigh the higher cost of finance and higher transaction costs of this service model, then the involvement of investors will create a new benefit.

Social bonds need clear specification of outcomes, and well-elaborated, independent monitoring and evaluation. Investors may be unwilling to take on financial risks unless the bond covers a large enough target population to generate valid and stable measurement of effects on outcomes that can be attributed to interventions.

Social bonds require very specific conditions to be viable and involve complex institutional arrangements that take time and skill to set up. They may be most useful in stimulating the development of new approaches and testing their effectiveness, rather than being applied widely across large populations.

Social bonds are a relatively new innovation. Experience is limited to a few projects, and each of these was at a small scale. As experience grows and transaction costs fall, social bonds may be able to fulfil a larger role in delivering more effective social services.

Markets for good

The *Markets for Good* proposal would extend voucher systems into service areas where they have not been previously applied (Box 6.2). Such vouchers – both in terms of desired outcomes and dollar value – are individualised to a client's specific needs and circumstances. Social service providers receive payments conditional on the client achieving the outcomes specified in their voucher.

Box 6.2 **Markets for good**

Reform, a UK think tank, recently published a report describing the problems in delivering social services that the United Kingdom faces. These have direct parallels with the challenges faced in New Zealand.

The report recommends the creation of *markets for good*. The essential feature of these markets is a client-assessment process that results in vouchers individualised to the client and their circumstances. Each voucher is essentially a promise of payment to any licensed social services provider that can

deliver a specified outcome for that individual.[38] For example, an unemployed client facing multiple disadvantages might receive a voucher for £11,000 payable to a provider who finds them employment that is sustained for two years.

Clients get to choose their provider, but cannot switch once that choice is made.

A feature of the proposal is the breadth of the proposed outcomes. The report envisages that vouchers would be issued for around 10 "king outcomes". These are intended to span multiple bureaucratic silos, encouraging service prioritisation and integration.

Providers can be licensed for one or more king outcome. Licensing would be the responsibility of an independent regulator. Licensing would be intentionally "light handed", encouraging new providers into the market.

Source: Haldenby, Harries and Olliff-Cooper, 2014.

This model has many interesting features. It has some foreseeable advantages and problems, and no doubt many unforeseeable ones. The Commission regards it as an interesting yet unproven model that is worth watching.

6.4 Commissioning tasks and skills

Social services markets rely heavily on formal and informal institutions. These cannot be assumed to exist – they may need to be created or adjusted to support specific services.

Commissioning tasks

Commissioning will be ineffective if the problem it is intended to address is poorly defined, so clear problem definition is an essential pre-requisite.

Commissioning involves the design of a system to efficiently and effectively deliver a service, including consideration of the following aspects:

- outcomes sought and performance measures;
- service specification;
- allocation of decision rights (who can decide what, and with what authority);
- eligibility;
- quality;
- price;
- sustainability;
- innovation; and
- monitoring, evaluating and learning.

Careful design, reflecting the characteristics of a particular service

Conventional markets work within a legal framework determined by government.[39] Standard market mechanisms, operating within the legal framework, can be relied on to set prices, communicate information,

[38] A proportion of the payment is made up front, irrespective of success, to reduce the financial risk faced by providers.

[39] In New Zealand, this framework includes the Sale of Goods Act 1908, the Consumer Guarantees Act 1993, the Contractual Remedies Act 1979 and the Fair Trading Act 1986.

resolve disputes, and provide incentives for investment and innovation. This approach is reasonably generic, in that it (relatively) rarely requires extension for specific products and services.

Social services markets are not conventional economic markets (Appendix F). Their characteristics typically mean that one or more framework parameters need to be administratively designed or specified. And as social services have varying characteristics, typically the framework needs to be customised for the specific social service.

Co-existence with other services

Commissioning, as described above, is mostly undertaken one service at a time. One could envisage a process started at the top of a master list of services, deciding on the best way to organise the first service, implementing the necessary changes, and then moving down that list.

Such a process, however, is unlikely to lead to the best overall solution. It risks a system with lots of unclear boundaries and accountabilities. It also risks inequitable outcomes. For example, the Disabled Persons Assembly pointed out:

> New Zealand has two separate systems providing disability supports:
>
> a. Accident Compensation Corporation (ACC) that covers people disabled by injury or accident, and
>
> b. Ministries of Health and Social Development, including the District Health Boards, that fund people disabled from congenital factors or from ageing (sub. 54, Attachment One, p. 28)

Individuals facing the same condition are assigned to a system based on the causal mechanism. However, the two systems offer different levels of support:

> …if a leg or sight is lost through diabetes, supports are likely to be much less than if sight or a leg was lost as the result of an accident. (sub. 54, Attachment One, p. 28)

As well as co-existing with other services, new or redesigned services have to fit with the wider policy environment (eg, income support obligations and sanctions) and other initiatives such as social marketing campaigns.

Service commissioning requires a wide understanding of the other services and activities that may complement or substitute for the service in question, and of how these services might interact. This is particularly important in the case of services for clients with multiple, interdependent problems that require integrated assessment and support (Chapter 10).

Information and incentives for efficient allocation

The markets for regular services have mechanisms for spreading information about service availability and quality. These include price, reputation, advertising, independent quality certification and third-party reviews. Social services lack some or most of these mechanisms, so it is likely that they will need to be designed as part of the commissioning process.

It is important for commissioning organisations to address information availability, reliability and dissemination. A client-choice driven service, for example, will not have the desired effect on provider quality if clients are ill-informed about provider quality.

In the Australian employment services system, each provider receives a star rating from the Department of Employment to reflect its success in achieving employment outcomes given the types of clients they are serving and labour market conditions where they operate. Star ratings are made public to inform client choices. They also influence the Department's decisions on market share in each contract round (Chapter 3; Appendix B).

Goal specification and measurability

Service stewardship is an overarching responsibility for the monitoring planning and management of resources in such a way as to maintain and improve service performance (section 6.5). Relevant activities include performance monitoring, identifying barriers to and opportunities for beneficial change, and leading such change.

Key to this is having clear goals, clear service performance metrics, and a strong logic joining the two. A well-designed data infrastructure is essential for quick feedback on the chosen performance metrics (Chapter 8).

Allocation of decision rights

Decision rights define who can change what, and with what authority. The *who* is important, because different participants face different incentives, and have access to different information (Chapter 4). Chapter 5 discusses the importance of carefully allocating the responsibility for commissioning.

The allocation of decision rights should reflect the desired balance between national consistency and local adaptation, and permit experimentation without compromising service outcomes. This is a hard balance to get right; but even harder if it is not treated as an explicit design decision. When contracting out, one useful framework is *tight-loose-tight*:

> In our experience contracts that come closest to adopting a 'tight, loose, tight' high trust contracting framework gain the benefits of flexible service delivery and maintain government accountability. *Tight* in terms of specified resource, population and impact/outcomes; *Loose* in terms of how the provider is monitored to apply the model of care (assuming a foundation of evidence-based best practice), *Tight* in regards to evaluation and improvement. (Wise Group, sub. 41, p. 44)

Essentially, the commissioning organisation needs to decide the desired outcomes, the provider needs to decide the how of service delivery, and the provider needs to demonstrate their performance against those outcomes. This framework is applicable to most service models and is a good starting point for the allocation of decision rights.

Client eligibility for services

Social services range from those that are at risk of being under-consumed (eg, drug and alcohol rehabilitation programmes) to those that might be over-consumed (eg, elective surgery). In each case, an important commissioning task is deciding who the service is for.

Having decided that, the next question is how to ensure that the service is targeted to those people. This usually involves establishing eligibility criteria and deciding who will assess people against those criteria.

A further question is how the service deals with changing client circumstances, which may necessitate reassessment. An appeals mechanism may be required should clients be likely to challenge eligibility decision.

There is a trade-off between simplicity of eligibility criteria and accurate targeting through more complex criteria. Similarly there may be a trade-off between national consistency in assessment, and assessments that are more responsive to the particular situation of individuals and their local environment.

These issues are present in all service models, though the specifics may vary. See Chapter 11 for a discussion of eligibility in the context of client-directed budgets.)

Quality

Quality is inherently ambiguous and contested in many social services markets. In a conventional market, consumers judge quality, and trade it off against other service attributes (eg, price, colour, convenience). In social services markets, different participants may apply differing criteria when judging quality – and thus may make different trade-offs. For example, process integrity is an important aspect to quality from a government perspective, providers may be more concerned about the qualifications of the person delivering the service, and clients may care more about availability, friendliness and approachability.

Governments may be tempted to over-specify services to ensure quality on the dimensions they think important. This may, however, unnecessarily reduce the flexibility of providers and dampen innovation.

For the contracting-out and managed market service models, the regulation of quality is usually done by the funder and specified contractually. Quality regulation can be internal under in-house provision; however this risks conflicts of interest.

The regulation of quality can be more complex under other service models. Some form of independent quality regulation is often used. Occupational regulation is typical for some professional services. For health, this is supplemented by the Health Quality & Safety Commission.

> The Health Quality & Safety Commission was established under the New Zealand Public Health & Disability Amendment Act 2010 "to ensure all New Zealanders receive the best health and disability care within our available resources". (HQSC, n.d.)

The Educational Review Office performs a similar function for schools.

Competition between providers on the basis of price runs the risk that providers skimp on quality (Appendix F). This will be of concern if quality is difficult to observe by those making choices between providers. The best response to this risk will depend on the specifics of the service and service model. Responses could include:

- changing who makes the choice between providers (eg, allowing clients to choose their provider rather than being assigned to one by a bureaucracy);
- collecting and publishing information on provider quality;
- fixing prices administratively, so that competition shifts to other observable service attributes;
- increasing peer monitoring; or
- licensing and regulation to set minimum quality standards.

Consultation and feedback

Consultation during service commissioning has three distinct purposes. First, consultation is a means of finding information held by others that can be used to clarify objectives and design a better service. Second, consultation is a means of building wider support for, and ownership in, a service design. Third, consultation may be necessary to meet a wider requirement (eg, a Treaty relationship).

Providers, client representatives and commissioning agencies may hold different views about the purpose of consultation. Service commissioners should be clear why they are consulting and convey this clearly to those consulted. This avoids imposing unnecessary costs on those consulted.

Feedback has three important purposes. First, it provides information that supports ongoing fine-tuning and service evaluations. Second, it can identify incidents of unsatisfactory service performance. Third, it can identify individuals who are poorly matched to a service, with the aim of redirecting them to one more suitable.

Provider consultation

The importance of early consultation of service providers and user groups has long been recognised. For example:

> It is fundamental that potential and actual service user needs form the basis for the specification and monitoring of social service delivery contracts. Consultation with service providers and user groups and regular surveys of individual users should be an inherent part of agencies' systems and procedures for formulating contract specifications and performance monitoring criteria. (Deloitte Ross Tohmatsu, 1993, p. 15)

While the benefits of consultation are recognised, implementation appears patchy. For example, Health Care of New Zealand Holdings considered:

> There is an important opportunity prior to going to market to work with the sector to define the requirements so that the best outcome is achieved for the community. This kind of sector collaboration prior to such processes is not happening often enough or in a way that improves the quality of the process. (sub. 51, p. 13)

Many are attracted to the concepts of "co-production" and "co-design", which includes wider involvement in design, governance and on-going service management and delivery (Box 6.3).

Box 6.3 **Co-production and co-design**

Matahaere-Atariki et al. (2008) described co-production in a Māori context:

> Co-production is more than a "bottom up" community development model and does not aim simply to promote community planning and user-focused services. It involves a more active role for iwi and Māori authorities in designing and delivering local services, as well as providing the opportunity to influence the policy process by working with government to invest in shared outcomes for Māori. (p. 34)
>
> The concept of co-production was developed by a group of academics at the end of the 1970s in reaction to what they considered were problems with dominant theories of the time about urban governance and centralisation, and to address the failure of conventional development programmes... These academics were concerned with the idea of engaging citizens in both the design and production of public services. At the same time, Edgar Cahn was developing his concept of an alternative currency he termed "time dollars". Cahn developed a theory to explain why and how this currency could change the dynamics of social welfare programmes, which he too termed co-production... Both models have similar aims: to give responsibility to and involve those who have in the past been regarded as "the problem" in creating solutions for themselves. It is the opposite of deficit thinking and offers an alternative to only public or only private service provision... (p. 35)

The Wise Group supported a co-design approach:

> …generally described as "a product, service, or organisation development process where design professionals empower, encourage, and guide users to develop solutions for themselves. Co-design encourages the blurring of the role between user and designer, focusing on the process by which the design objective is created". (sub. 41, p. 17)

The concept of co-production overlaps with devolved architectures (Chapter 5), the shared-goals service model (section 6.2) and devolution to Māori organisations (Chapter 13). Readers should refer to those parts of this report.

Co-design can be valuable for complex services where expertise and information is widely dispersed, and where it is crucial to build wider support for, and ownership in, the service design. Service commissioners should be very clear about the limits within which co-design operates; that is, which aspects of the service are being co-designed and which remain the responsibility of the service commissioner. Failure to be explicit will likely frustrate participants (Appendix D).

Consultation can cause delay, and involves costs. Commissioning agencies should therefore target those most affected by the service and match the amount of consultation to the size and complexity of the service to be supplied, and the value expected from that consultation.

Client consultation

Service clients should be consulted by commissioning agencies for the same reasons that providers should be consulted. Clients can have information that no-one else has. So it makes sense to access and use that information. However that information can be difficult to access. Service providers may be the best proxy of client views for some difficult-to-access clients (eg, homeless people). On the other hand, there are capable and effective advocacy groups for some service users (eg, people with disabilities).

Clients may be better able to judge service quality than can service commissioners. This ability can be exploited through choice of service model (eg, vouchers).

It is unreasonable to expect clients to be professional service designers. If service commissioners lack professional capacity, they should deal with that problem directly rather than relying on consultation to fill gaps in expertise. Commissioners should seek the combination of client-held information and professional expertise that leads to the best service design.

F6.5 Consultation with service providers and users during service commissioning can discover information that can be used to clarify objectives and design a better service, and to build wider support for, and ownership in, a service design. But consultation can cause delay, and involves costs.

R6.5 Commissioning agencies need to be clear why they are consulting and convey this clearly. Agencies should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

Complaints and feedback

> Direct feedback from complaints is also very helpful. The literature states that only 4% of people dissatisfied with a disability support service will actually make a complaint about it – so complaints provide vital information that the other 96% are unwilling or unable to provide for a host of very good reasons. (National Services Purchasing, sub. 111, p. 8)

> A very strong and clear message [from] service users … was that above all they needed to be treated with respect by service providers. (Kay Brereton, sub. 9, p. 1)

Empowerment is not only about engagement in individual or collective decision-making processes. It also includes mechanisms for making complaints and seeking reviews. Brereton contended:

> An important safeguard for people using the social services of statutory agencies is the statutory access for review and appeal rights as well as to watch dog agencies such as the Ombudsman. (sub. 9, p. 2)

Brereton further cautioned that if a service is contracted to a non-government provider, it is important to ensure that the contracting-out process does not create barriers to review and appeal mechanisms for clients.

The Auditor-General recently described the benefits of well-functioning appeal and complaints systems:

> Public entities that welcome complaints signal to citizens that someone is listening to them and that they can influence public services. For the entities, complaints are a free source of advice. Complaints can provide valuable insight into poor service, systemic errors, or problems with specific processes. Complaints also give public entities an opportunity to understand the motives, feelings, and expectations of the people using their services. (OAG, 2014b, p. 4)

The Commission agrees that good consultation and complaints mechanisms are part of a well-functioning learning system (Chapter 7) and signal the commitment of an organisation to empower its clients.

F6.6 Complaints mechanisms are part of a well-functioning learning system, and signal the commitment of an organisation to empower its clients.

Price

Many systems need to establish prices through administrative mechanisms. At least two prices matter – that paid by clients and that paid by the funder to the provider. Setting prices – or determining who will set them and on what basis – is part of the commissioning process.

Client prices

Client prices are often set to zero to encourage uptake by those targeted. But this may be an insufficient incentive to get all of those in target groups to take part. So it may be necessary to subsidise some transaction costs, make the service compulsory or to bundle an activity with income support. Respective examples include:

- paying a client's transport costs to a health clinic;

- free, compulsory schooling; and
- obligations to seek work.

Client prices at zero can encourage over-consumption. So a rationing system and/or differential pricing may be needed for different groups of clients. That, in turn, requires the specification of eligibility criteria and to define who is in what group.

Price discovery

Regular markets determine prices through many interactions between buyers and sellers, each motivated by private interest. These interactions and incentives are limited in social services markets, so alternative means of determining an efficient price may be required.

In particular, contract markets with a dominant purchaser, mission-oriented suppliers and/or limited numbers of suppliers may not be very reliable for price discovery.[40] And generally speaking, governments face incentives to underpay providers.[41] So contract markets may need supplementing with administrative price-setting mechanisms.

Similar issues arise for other service models. The criteria for pricing levels are discussed in section 6.4. (Other contract payment issues are discussed in Chapter 12.)

Cream skimming, parking and lemon dropping

Clients have different characteristics. For example, in the case of employment services, some clients will find it easy to get a job, even without help. For others it may be near impossible, regardless of the level of support. *Cream skimming* (or *cherry picking*) refers to the behaviour of providers that actively recruit the clients on whom they can make a profit, or avoid those on whom they expect a loss. Competing providers who do not cream skim may end up with loss-making clients only, which can threaten provider viability:

> The Salvation Army cannot always compete with fully commercial private operators, particularly in the education, early childhood education centres and homecare sectors where local and overseas providers can afford to screen clients or students or deliver only the contracted clinical services. (Salvation Army, sub. 104, p. 8)

> Overly specific contracts linked to outcomes can also cause providers to 'cherry pick', i.e. choose to work with those clients who will achieve outcomes easily rather than those who have more challenges, and are arguably those most in need. (Inclusive NZ, sub. 32, p. 7)

The same payment for each client creates the conditions for cream skimming.[42] For this reason, most managed markets and voucher systems typically vary the payment based on the client's characteristics. Employment services in Australia is an example (Chapter 3).

Alternatively, statutory or administrative rules can be used to limit the ability of providers to select their clients. For example, New Zealand state and partnership schools with additional places to offer are subject to statutory rules designed to prevent them from cream skimming[43].

Parking refers to the behaviour of providers who leave difficult clients "on their books", doing the minimum to continue receiving a service fee, but not enough to achieve the desired outcome for those clients. Payment schedules with relatively high service fees and relatively low success fees create the conditions that encourage parking.

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[40] Specifically, both a dominant purchaser and mission-oriented suppliers tend to push prices below sustainable levels. Limited supplier numbers, supplier collusion or product differentiation may support higher prices (Appendix F).

[41] Ideally, these incentives would be balanced by a concern about the long-term sustainability of the provider market. However, contract cost savings are certain and immediate, while the costs of non-sustainability are longer term and less certain. The electoral cycle favours short-termism in government decision making (Chapter 4).

[42] More specifically, cream skimming might occur if the payments for some clients substantially exceed the costs of servicing those particular clients, and providers have some control over which clients they service.

[43] See Ministry of Education (2015b) for a description of these rules.

> Incentive-based payments may be one way to achieve social outcomes specified in a contracts but they are subject to many problems such as the "parking" of difficult clients and gaming and a focus on "numbers and outputs" rather than people and communities. (Council of Trade Unions, sub. 103, p. 11)

Youth Service is an example of a payment schedule that attempts to discourage parking (Chapter 3; Appendix B).

Lemon dropping or *risk shifting* refers to the behaviour of providers who try to get rid of "expensive" clients. Careful design of payment schedules is required to discourage it.

These behaviours are not eliminated simply by choosing particular types of providers. For example, submitters variously suggested that government agencies, clinicians, FPs, and the larger NFPs cherry pick (or are likely to respond to incentives to do so).

Cream skimming, parking and lemon dropping are all symptoms of a mis-alignment between provider behaviour and the apportionment of resources to clients that commissioning organisations wish to achieve. Commissioning organisations need to be clear about their objectives and the apportionments that follow. Is their objective, for example, that each client receive equal resources (equity of inputs), the same service (equity of outputs), have their condition raised to a common standard (equity of outcomes), be improved by a similar amount (equity of relative improvement) or receive a service according to return on investment (greatest improvement in social value per unit of resource)? What might appear to be "parking" or "cream skimming" of specific clients under one objective may be the desired behaviour under another.[44]

Commissioning organisation needs to carefully design client assessments and provider payment schemes to align the incentives that influence provider behaviour with their objectives.

Innovation

Different service models encourage or discourage innovation in different ways. It is important for commissioning organisations to understand the effects of model choice.

Innovation issues are discussed in Chapter 7.

Monitoring, evaluating and learning

A crucial commissioning task is the collection and analysis of data. This data is required to support commissioning, the ongoing operation of the service, performance measurement and for service improvement.

This topic is covered in Chapters 7 and 8.

Rural and remote areas with low population densities

Rural and remote areas have low population densities. This increases the costs of providing social services to those populations, and limits the likelihood of multiple providers.

> Population density affects client choice (or lack thereof) of social service providers, and ultimately the accessible services. Population density was also seen to effect the ability to recruit and retain volunteers to provide the services, due to the high pressure on volunteers and can lead to competition between rural community groups to source the most capable volunteers. (Volunteering NZ, sub. 86, p. 13)

Almost all services face higher per-capita costs in rural areas. For example, it is a lot more expensive to provide telecommunications to rural and remote areas. It is normal to adjust policy to reflect these differences. For example, the companies that cooperate to provide the Rural Broadband Initiative (covering around 15% of the population) act more as competitors in the Ultra-Fast Broadband initiative (covering around 75% of the population).

[44] For example, Mansell (2015) discussed different performance targets that affect teaching effort allocated to individual students. He noted that Better Public Services target of getting more students to NCEA Level 2 was leading educators to allocate more effort to students currently just below that level, and less effort to those well below or above that level. He characterised this allocation as "cherry picking" and "risk shifting". This characterisation is correct if the education objective is equity of relative improvement. But it is incorrect if the education objective is maximise the number of students achieving NCEA Level 2. This highlights the important of being explicit about service objectives.

Sometimes this problem can be dealt with by careful commissioning:

> ACC has used contracting processes to ensure that clients in smaller centres and rural areas have access to a choice of providers. For example, ACC's vocational rehabilitation contract requires providers to deliver services throughout one or more defined geographical areas. These areas are defined to ensure that a choice of service provider is available to all New Zealanders. For example, Northland is included within the same area as Auckland, which means that providers who apply to deliver services in Auckland must also do so in Northland. (ACC, sub. 30, pp. 6–7)

The challenge for commissioning organisations is to find the most efficient and effective way to service their target population. This may mean adopting more than one service model, or adapting the chosen model to suit different populations.

F6.7 Service commissioning may need to adopt different service models (or significantly adapt their adopted model) to cover urban and rural populations respectively. A differentiated response is likely more effective than a one-size-fits-all model.

Behavioural change campaigns

A high-level choice for government is between programmes that deliver social services directly to clients and influencing campaigns aimed at behaviour change – or indeed the appropriate mix of the two.

John Angus (sub. 109) made the point that it is families (and communities) that will ultimately solve social problems that arise within families and that "the challenge for government is to find respectful ways to assist families to do this. The effectiveness of purchase of services by contract will play a very minor role in this" (p. 2). He identified two successful initiatives: *SKIP* in the area of child welfare and *It's not OK* in the area of family violence.

There can be significant economies of scale for influencing campaigns. They are part of the set of choices available to commissioning organisations and are most likely complementary to direct service provision. The marketing profession is reasonably sophisticated at measuring its impacts, so establishing return on investment may be easier for behavioural change campaigns than for the corresponding social services.

Commissioning skills

Commissioning is inherently wider than purchasing or procurement. Commissioning crucially involves the ability to make a considered choice between different service models.

The Wise Group identified a current lack of commissioning skills in government:

> The capacity and capability of the workforce undertaking commissioning on behalf of central or local government is variable and workforce churn for such roles is particularly high. (sub. 41, p. 12)

To get the most from a commissioning approach, government will need to develop new capabilities for commissioning at all levels.

Commissioning also requires ongoing service stewardship, which means:

- understanding the interactions between the service and other parts of the social services system;
- monitoring impacts on providers and clients; and
- taking actions aimed at ongoing improvement.

Government agencies responsible for commissioning will need to build their skills and capability.

R6.6 The government agencies responsible for commissioning social services should actively build staff skills and agency capacity to make effective commissioning decisions.

A commissioning approach is a significant step from the current emphasis on purchasing and contracting. Government should take active steps to build awareness of commissioning and demonstrate good commissioning.

R6.7 Government should initiate some well-resourced demonstration projects designed to build awareness of and capability in commissioning.

Chapter 14 covers implementation issues, including building a skilled workforce.

6.5 Service stewardship

The social services system requires healthy, capable and sustainable providers. Government is the major funder and purchaser of social services. Its commissioning and purchasing decisions will substantially determine provider quality.

Government needs to clarify its objectives in funding services, and match the type of funding to those objectives. Legitimate options for funding include full funding, contributory funding, tied and untied grants, and no funding.

Government should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decisions. Government should fully fund those services where it desires full control over service specification.

Government faces incentives to underfund contracts with non-government providers for the delivery of fully specified social services. Long-term underfunding has undesirable consequences. Payments for such services should be set at a level that allows an efficient provider to make sustainable return on resources deployed, encouraging investment by existing providers and entry by new providers.

Pricing principles

The question of price is central to contracting out, but also arises under other service models – and indeed any arrangement where government funds others to provide a social service.

Government has the ability to underfund providers

Submitters to this inquiry claim that government is trying to deliver social services "on the cheap" by squeezing providers very tightly on funding. For example:

> NGOs are … on the coal face and are not given anywhere enough funding. (Social Services Providers Aotearoa, sub. 129, p. 8)
>
> …these government-driven services are not fully funded by government. Instead the costs of government-driven services are being subsidised by NGOs as NGOs use their infrastructure and fundraised money to cover the costs of delivering on government contracts. (Barnardos, sub. 12, p. 11)
>
> [I]t does need to be stated that most Community and Voluntary organisations who contract with Government have not received funding increases (even CPI) for up to 10 years. This means that most social service organisations are actually delivering services on much less money than 10 years ago, with an increase in clientele and having gone through the global economic crisis. (Community Networks Aotearoa, sub. 31, p. 6)
>
> The community sector often finds that they are in the position of having to accept a price rather than negotiating one. Some DHB funders have not changed the contract price for the same service over the past five years despite the growing complexity in client needs and the increase in costs to deliver those services. (Platform Trust, sub. 45, p. 6)
>
> **The funder has most of the bargaining power** – largely a take it or leave it negotiation strategy which is often used to play one provider off against another. This is enabled because the MoH is a large funder purchasing a sizeable portion of the sector's output. In a virtual monopoly there is little room to negotiate. The latest [Autism Spectrum Disorder] addition to the contract without consultation is a prime example of the attitude of a monopoly funder and their dismissal of our response consistent with their previous responses. The cost to the Ministry of switching to another provider is relatively low, and

> in any event they are government funded and can absorb the cost. A large range of similar providers also provides a cushion for the MoH to deal with a single provider who won't cooperate. We also know that a lack of cooperation can see funding or relationship penalties. There is little one can do in the face of this bargaining power except to provide a range of products, services, skills that other providers cannot emulate thus making it difficult for the funder to accept a lesser service, or a more risky one for them. (Spectrum Care Trust Board, sub. 90, p. 7) [original emphasis]

While some might be tempted to see this as simple self-interest on the behalf of providers, other commentators have noted this problem:

> In respect of levels of funding from government, it is my view that over the past decade successive governments have screwed down NFPs in the social services sector (or certainly the parts of it I am familiar with), putting at risk their sustainability. (John Angus, sub. 109, p. 6)

One reason for the lack of inflation adjustments in recent years may be government financial constraints following the effects of the global financial crisis on New Zealand. However, providers have told the Commission that underfunding is a long-standing system feature, with its genesis in a policy of "contributory funding" (Box 6.4).

Box 6.4 **A history of "contributory funding"**

Contributory funding – where government agencies intentionally provide part, but not all of the funding for a service – is a lasting and contentious issue in the provision of social services. Arising from the practice of government providing grants to charitable organisations, the "contributory funding" model was developed as part of a move to contracting for outputs in the 1990s.

> Most funding is **a contribution** to the total costs of the service. This practice reflects the history of government assistance to community based social and welfare service in New Zealand although, in order to maintain its contributory nature the contract specifies that the full quantum of service must be delivered by the provider. (DSW, 1997a, p. 2)

Part of the logic of contributory funding was that it would stimulate local community activity for delivering social services that they deemed desirable:

> What makes the [Department of Social Welfare] relationship with community providers particularly interesting is the contribution model. This model aims to stimulate voluntary community activity through part funding. It has been suggested that the implementation of this model plays a key role in building strong cohesive communities (in other words the model produces an output of greater value than the simple input – both in terms of quantity of output and external factors). (DSW, 1997b, p. 3)

The Community Funding Agency (CFA) had a budget for purchasing national services on the behalf of the organisations that now make up MSD (principally the then Child, Young Persons and Their Families Service), and a separate budget for funding community organisations.[45] That separate budget allocated funding on a population basis to eight areas across the country. Allocations from each area budget used the contributory approach. CFA provided funding to increase the scale or volume of work done by community organisations where more output was desirable, but local resources could not support it.

This explicit community support function was lost after the CFA was disestablished. Service purchase became the dominant approach. Submitters expressed very strong views on the negative consequences of contributory funding within a service purchase approach.

[45] The CFA was a branch of the Department of Social Welfare, established in 1992 at "arm's length from the New Zealand Children and Young People's Service" (Garlick, 2012).

Ministers may also be reluctant to expand funding should they be unsure about how effectively funds are being applied.[46] This reluctance may be best dealt with through improving data infrastructure, knowledge of service costs and impacts, and the learning capacity of the system (Chapters 7 and 8).

The claims of providers are consistent with government exploiting its position as the sole purchaser of many social services (Chapter 2). However, that does not mean that the correct response is to pay contractors based on their current costs. Such payment arrangements have their own problems, including dis-incentivising efficiency and innovation (Chapter 7; Appendix F).

What is needed is a system where government is explicit about its goals and applies funding principles that match those goals.

F6.8 Government faces incentives to underfund contracts with non-government providers for the delivery of social services, with probable adverse consequences for long-term service provision. These incentives are consistent with reports from many providers that they are underfunded. However, those reports are not definitive without clear criteria to determine a "correct" level of funding. This points to a need to be explicit about the basis of funding, the appropriate evaluation criteria, and the pricing processes applied by government.

Be explicit about full funding, contributory funding, grants or no funding

> There are very unclear roles, responsibilities and accountabilities within this current system. The unconscious actions of both NGOs and government have contributed to this situation. To rebalance the system there needs to be real clarity about when and how the NGO sector is expected to act separately and independently from government, and when it is operating as a fully funded agent of government. (Barnardos, sub. 12, p. 11)

The Commission agrees with Barnardos' statement of the problem and need for clarity.

Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decisions.

The distinction between funding types and the basis of the corresponding relationships between government and the funded party is summarised in Table 6.3.

Table 6.3 Funding types and basis of government–provider relationship

Funding type	Basis of relationship
Full funding	Government pays non-government organisations (NGOs) to deliver the Government's goals or commitments. Payments should aim to cover the economic cost of service delivery. Payment structures should be carefully designed to create the correct incentives for service improvement over time. It is reasonable for government to fully specify the service delivery details (though a less-restrictive specification – eg, outcomes – may be more efficient).
Contributory funding	Allows government to subsidise activities that others specify and lead. Reasonable for government to require accountability for funds spent.
Tied grants	Allows government to subsidise organisations for specific purposes aligned with government goals. Reasonable for government to require accountability for funds spent.
Untied grants	Allows government to subsidise organisations to meet their own goals.
No funding	A legitimate decision for government.

[46] Contributory funding can provide some assurance of effectiveness; as it can be presumed that a local provider or community would not want to put their own resources into an ineffective scheme.

R6.8 Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decision. Legitimate types include full funding, contributory funding, tied and untied grants, and no funding.

Full funding

Full – or sustainable – funding is appropriate when government agencies pay NGOs to deliver the Government's goals or commitments. This is the appropriate funding arrangement when government wants full control over the service specification (though a less-restrictive specification may be more appropriate, eg, contracting for outcomes).

R6.9 Full funding is appropriate when governments are paying non-government organisations to deliver the Government's goals or commitment, and want full control over the service specification.

Payments should aim to cover the economic cost of service delivery, so that the market for service provision is sustainable. According to Barnardos (sub. 12), sustainable funding means that:

- services are fully funded;
- funding recognises the costs of infrastructure (eg, training, business reorganisation and IT systems) required to support services; and
- there is no expectation that NGOs will subsidise the costs of service delivery that is commissioned by the Government to meet government objectives.

A sustainable return on resources deployed

"The economic cost of service delivery" is not the same thing as paying at the level of costs currently incurred by existing providers. That arrangement would mean higher rewards for less efficient providers. Payment levels and structures should be designed so that "there are incentives to reduce overhead costs and to provide quality infrastructure in efficient and effective ways" (Barnardos, sub. 12, p. 19).

R6.10 "Fully funded" social service payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

By "sustainable return on resources deployed" the Commission means a "normal profit", as explained in Box 6.5.

Box 6.5 **Economic, accounting, normal and super-normal profits**

Discussion of the term "profit" is complicated by the many different uses of the term. It is useful to determine between four different uses.

- *Economic profit* is the difference between revenue and costs, where all inputs (including capital) are valued at their opportunity cost (ie, what they could earn in their next most valued use).
- *Accounting profit* is the difference between revenue and cost as measured by the applicable accounting standards. It is typically larger than economic profit, as it (implicitly) assumes that equity capital is costless.[47]

[47] Another source of difference is that asset values in accounting do not, in general, reflect opportunity costs.

- A *normal profit* is an economic profit of zero. This is the expected average long-run profit of firms in a competitive market.
- A *super-normal profit* is a long-run positive economic profit, generally based on holding exclusive rights to a valuable resource.[48]

Discussions about profit are further complicated by the common term *not-for-profit*. The term is a poor description of the organisational form.[49] NFPs are in no way constrained from making profits. The constraint they face is that they cannot distribute profits to shareholders (as can an investor-owned firm) or to members (as can a cooperative). This means that NFPs must retain or spend all their profits.

All organisations, whether for-profit (FP) or NFP, need to make a normal profit over the long term to be sustainable. And, indeed, it is the opportunity to make profits that attracts new entrants to a market and spurs innovation.

Zero or negative accounting profits imply negative economic profits, and therefore unsustainable organisations. Social services providers should seek – and indeed welcome – positive accounting profits.[50] Furthermore, they should be wary if in a situation of positive accounting profits but negative economic profits, as this may indicate a rundown of assets and long-term unsustainability.

The issues about "profits" by some inquiry participants might arise more from a concern about super-normal profits than about accounting profits.

> We have been alarmed by the increasing trend towards private for-profit providers entering the social services arena for the very reason the title for-profit suggests. (Community Care Trust, sub. 96, p. 5)
>
> We are concerned that this review is in reality another step towards creating opportunities for making profit from vulnerable people, rather than actually addressing the under lying causes of the problems being faced by individuals/families/whanau and communities. (Homebuilders Family Services North Rodney, sub. 38, p. 1)

Super-normal profits might arise in social services if monopoly rights are created by government, if providers act as a cartel or if service prices are set too high. If the super-normal profits were being earned by NFPs whose mission was aligned with the Government, then that might be of lesser concern than if the same super-normal profits were being earned by a FP. However, it would still be of concern as it may imply an inefficient use of government funds. A better arrangement would avoid the situation that created the super-normal profits.

Low population density and other factors can increase the costs of providing social services.

> In addition to funding the infrastructure that is necessary to support quality service previsions, it is also important to consider how to support the provision of regional services. The costs of this for a national organisation like Barnardos are very high. Once again, if government wants organisations like Barnardos to be available to provide high quality services in rural and regional areas, then our regional infrastructure needs to be sustainably funded. (Barnardos, sub. 12, p. 19)

Where independent factors, such as low population density, mean that any provider faces higher costs, then prices should reflect those higher costs. This is implicit in the "normal profit" criterion that underlies the Commission's recommendation.

[48] Super-normal profits can be earned in the short term as a result of innovation. In the long term, they generally rely on market power arising from protection from competition; for example, a monopoly right granted by government.

[49] Despite this problem, this report uses NFP in the absence of a more descriptive term that is widely understood.

[50] Most organisations undertake multiple activities, each with revenue and costs. Their profits, and therefore their sustainability, are dependent on the net effect of profits and losses across those activities. An organisation can reasonably choose to make a loss on an activity (eg, a service contract) if it can make that loss up through profits on other activities.

Implications for providers

The flip side of government being explicit is providers being more explicit about their own mission and their motives in pursuing government funding. Providers capable and confident of delivering services in the way and to the standard specified by government should welcome fully funded contracts. Those who wish to pursue goals not necessarily aligned with those of government should not expect full funding. This may entail providers making hard choices.

F6.9 Providers capable and confident of delivering services in the way and to the standard specified by government are likely to welcome a commitment to fully fund such service contracts. Those providers who wish to pursue goals not necessarily aligned with those of government should not expect full funding.

Full funding, properly implemented, should allow sustainable provision by either FPs or NFPs, or both. The distinction between the two is perhaps less marked than many might expect.

> It is important to note that while the vast majority of the providers that compete in our sector are "not for profit" their provider arms often seek to generate a profit to support the activities of their parent organisation. Just because a provider's mission is not to make a profit doesn't mean they are willing to make a loss and in fact most would expect a margin for sustainability and reinvestment in their business. Therefore, there is not a significant gap between what is sustainable for us as a for-profit provider and what most not-for-profit providers would consider sustainable and reasonable funding. (Healthcare of New Zealand Holdings, sub. 51, p. 4)

Generally speaking, the Commission would expect to see a predominance of FPs in markets with high capital requirements; and a predominance of NFPs in markets where service quality is difficult to specify and observe.[51] This reflects the strengths and weaknesses of these organisational forms.

Cost models

Prices in contract markets are set via a tendering process. In managed markets and voucher systems they are set administratively. And irrespective of the service model, funders and providers may have different views on whether prices are at the correct level. Commissioning agencies need to understand the costs faced by providers in supplying services.

The costs of delivering social services include direct labour costs; a share of overheads such as staff training; the annualised cost of capital used in the service, allowing for depreciation; the cost of taking on and managing risk; the costs of activity-related monitoring; the costs of reaching required standards; and a share of the costs of achieving other regulatory requirements. The government needs to understand these costs even when there is competitive tendering, to satisfy itself that services can be delivered as envisaged (APC, 2010). Excluding any of these costs from service pricing may make provision unsustainable.

Government agencies have developed some service costing tools. MSD developed a service costing analysis tool in an Excel spreadsheet and takes into account both direct costs, and indirect overhead and operational costs. (MSD, 2008). However, this tool is not readily available on MSD's website and the Commission understands that it is no longer used. Work and Income developed a costing tool in 2012 when they tendered for Youth Service contracts. The tool was provided to potential bidders as part of the request for proposal (RFP) process. Its purpose was to introduce the outcomes-based payment framework, which was new for many providers, to help them model outcome assumptions and the impact on their income under contract. The tool was in the public domain.

The Commission is not aware of any general guidelines about how to approach the costing of social services. The Office of the Auditor-General (OAG) has published guidelines for charging fees for public sector goods and services, but they do not apply to contractual payments (OAG, 2008). The Treasury guidelines for setting charges in the public sector apply only for services for which the Government is the

[51] In the latter case, the strong mission orientation of an NFP provider can alleviate concerns the funder might have about quality shading (Appendix F).

monopoly supplier (New Zealand Treasury, 2002), and so do not seem to apply to the provision of services by non-government providers in contestable or competitive situations.

R6.11 Agencies commissioning social services need to be prepared to understand the costs that providers face in supplying services. They should invest in the skills, tools and research necessary to develop costing models. The Treasury could provide useful cross-government guidance.

Pricing disputes

> It is almost impossible for NGOs to challenge funders about price or the significant and unfair differential between DHB funding and NGO funding. (Platform Trust, sub. 45, p. 7)

This raises the question of how best to resolve disputes over pricing. Independent arbitrators and regulators are used in other contexts. The Commission is interested in the views of inquiry participants as to an appropriate dispute resolution mechanism for funding social services.

Q6.1 What mechanisms are appropriate to determine whether prices for "fully funded" services are set at a level that allows an efficient provider to make sustainable returns on the resources they deploy? Should there be an independent body to resolve disputes? If so, should it take the form of an arbitrator or a regulator?

Contributory funding

Contributory funding allows government to subsidise activities that others specify and lead, or are jointly specified.

> It is not the role of government to fund all of our activities or to support all of our priorities. However, we do want a system that enables us to have enough space to self-fund activities and ways of working that we value. (Barnardos, sub. 12, p. 7)

Generally speaking, payment should be a negotiated, fixed contribution or a fixed proportion of what would be payable under a full funding arrangement.

In a contributory funding model, it is reasonable for government to require accountability for funds spent, though not for outcomes achieved.

What proportion should government fund?

The services and activities that the community expects government to fund, and the scale of funding, vary across countries (APC, 2010). The Australian Productivity Commission suggested that what government should fund, and to what extent, is ideally based on an assessment of the net benefit, although only governments can decide what proportion of the costs of a service to fund. Factors they should consider include:

- whether services are considered citizen entitlements or part of a social safety net;
- whether government is clearly purchasing the service on behalf of the community;
- the impacts of government funding for service quality;
- the long-term impacts of the level of funding on service capacity;
- whether the NFP service providers have agreed to make a contribution; and
- the value to the community of alternative uses of additional government funding, taking into account the efficiency costs of raising taxation revenue.

Factors such as these can provide a framework that government can use to enable it to articulate its approach to funding (APC, 2010).

Grants

Grants have low transaction costs and may be more efficient than contracts for some purposes. This is particularly the case where relatively small amounts of money are involved.

Tied grants

Tied grants allow government to subsidise organisations for specific purposes. It is reasonable for government to require accountability; that is, that the funds were spent on goods or services that contributed to the specified purpose.

Untied grants

Untied grants allow government to subsidise organisations to meet their own goals. Government also indirectly supports charities (of whom many provide social services) by providing donors with tax credits. In 2010, donor tax credits amounted to $195 million. Approximately $45 million of this was for donations to charities providing social services (Chapter 2).

Community development

The New Zealand Council of Christian Social Services (NZCCSS) (sub. 35) argued that contract funding of NFPs for specific social services creates positive spill-over effects for the communities in which these NFPs operate:

> Government funding of social services assists in the development of strong, capable, community based organisations. These organisations are critical to the wellbeing of their communities. Any government procurement of social services process should consider the whole contribution of the social services organisations to their communities – it should not just separate out a social services outcome as a commodity to be purchased in a transaction. (p. 10)

The NZCCSS further argues that these spill-overs are sufficient to justify the continuation of funding for existing NFPs and a strong contracting bias against FPs.

Other submitters questioned whether contract payments for services are an effective or appropriate mechanism for supporting community development:

> In the disability community we often see initiatives developed under the guise of community development where the community has little control over the initiatives and the officials set the agenda from afar. This means the Ministries agenda is met, but not necessarily the community or disabled people involved. (Workbridge, sub. 102, p. 10)
>
> …government needs to take a broad investment approach to communities and community development, and not confine itself to a narrowly defined contracting approach. (Waves Trust & Community Waitakere, sub. 83, p. 6)

The Methodist Mission did not think it reasonable to equate social service community organisations with the community they service:

> We are not our clients, we do not gather their voice, we frequently do not even gather their feedback on our services. The equation of social service community organisations with the community they service is, with a few honourable exceptions (typically Māori and Pacifica organisations), a conceit. (sub. 4, p. 17)

John Angus submitted that government attempts to support and build up community initiatives have not been successful (Box 6.6).

Box 6.6 **Government and community-based initiatives**

In my view Government's attempts to support and build up community initiatives – those that have genuine grassroots ownership and support – have not been successful. For many communities government support has been a very mixed blessing. Here are some examples:

- I have heard Kim Workman very cogently argue that for 100 years iwi, hapu and marae based initiatives have been essentially colonised by government departments. Examples are: initiatives within Maori communities to support families of men who were at war, the Maori

Women's Welfare League and, potentially, kohanga reo. Such a process is a risk for Whanau Ora and I urge you to be aware of it in your case study.

- Provisions under the CYPF Act allowed for the establishment and approval of Iwi Social Services and Cultural Social Services, services with some of the powers of Child Youth and Family. In the 1990s I was responsible for making it happen along with senior officials from Child Youth and Family and the Community Funding Agency. The reasons for the failure were several: non-cooperation between Child Youth and Family and CFA over funding, an insistence that any service look very similar to Child Youth and Family, an unwillingness to give up power and control that verged on institutional racism and a breach of article 1 of the Treaty
- A Community Initiatives Fund that threw money at community programmes in a way that almost inevitably set up failures.

Source: John Angus, sub. 109, p. 10.

The Community Care Trust identified a community development initiative funded through the Department of Internal Affairs:

> …the Greater Green Island Community Network where a cross sector of business, Government, education and social service providers form a steering committee based on a shared vision of the community but with unique interests and input into how this vision is achieved. This is supported by Department of Internal Affairs Community Development Fund. (Community Care Trust, sub. 96, p. 6)

Funding should use a mechanism consistent with its goal. In this case, the goal concerns developing and applying community decision-making capability. Grants are a more appropriate mechanism. Co-funding in some form by the relevant community is desirable, as it is a reliable signal of their priorities. Such co-funding could be in resources or volunteer time.

Fully-funded contracts for the delivery of social services should not be awarded on the basis of claims of "community development" spill-overs.

R6.12 Government funding for community development should be through grants for that purpose, and co-funded in some form by the relevant community.

Joint costs

A provider delivering multiple services may have fixed overheads. For example, all of their services require an office, but one office is sufficient to deliver all services. This is an example of economies of scope, which reduce the total cost of delivering services. However, when the services are independently funded, these circumstances create a *joint cost problem* (eg, Pfouts, 1961) for the provider, as identified by inquiry participants (Box 6.7).

Box 6.7 **Contracting arrangements cater poorly for provider overheads**

Submitters made the point that contracts do not cover all overheads, and that losing one contract can make the provider unviable.

> The area that remains problematic is the provision of some support for core organisational activities that enable groups to 'keep the doors open' and staff employed with some security … If groups are largely dependent on a succession of short term contracts they often find that legitimate overhead costs are discounted. Groups with a long and valuable contribution are too often only one failed contract or grant application away from dissolution. In this sense capability in the sector is lost – almost by accident. (WAVES Trust & Community Waitakere, sub. 83, p. 6)

> Often government wants national providers but they have more overheads than smaller niche providers (who often don't have the resource for extensive quality systems). Overhead costs are not well recognised in many government contracts. (Relationships Aotearoa, sub. 56, p. 10)
>
> …providing funding that covers overheads as well as service delivery [would reduce the cost to service providers of participating in contestable processes, as] this would enable social service providers to focus on what is really important, i.e. service delivery, which would ultimately result in better social outcomes and would reduce costs to service providers by not having to spend time and money sourcing alternative funds to cover overheads. (Age Concern New Zealand, sub. 100, p. 8)

If each service was funded to cover the full cost of overheads, then this would solve the provider's problem; but funders might baulk at paying the same cost multiple times. Yet providers face a funding shortfall if individual contract payments do not collectively cover overheads.

There is no simple solution to this problem. A practical approach involves bundling services together into a single contract when it is efficient for them to be supplied by a single provider. Ideally, such opportunities should be identified early in the commissioning process.

Because government is the dominant purchaser, it has the power to make existing providers with high fixed costs unviable. What it wants is for new providers to be able to enter, and for less efficient ones to improve or exit. Ideally market forces would sort this out – including dealing with fixed-costs problems. Since such markets are managed to at least some extent by government, solutions will likely involve government. The challenge is to intervene in a way that maintains the health and vitality of the provider market.

Provider diversity

Provider diversity has many aspects. Two important dimensions are organisational form and provider size. Inquiry participants had strong, and opposing, views on the desirability of large versus small providers, and FP forms versus NFP forms (see Box 4.3 in Chapter 4).

The Commission does not support a bias towards particular provider types. Social services and the environment within which they are delivered are sufficiently diverse that there is no basis to rule out particular forms or sizes of providers.

It is appropriate for commissioning agencies to take account of provider specialisation, and economies of scope and scale where they exist; and at times these factors will favour particular types of providers.

R6.13 When commissioning services, government agencies should be open-minded about the size or organisational form of current and potential social service providers. Preconceptions about provider size or form risk keeping out new entrants and reducing innovation.

How many providers?

Markets do not necessarily lead to an optimum number of suppliers. This is especially likely to be the case in social services markets. So it may be reasonable for commissioning agencies to "intervene", in the form of encouraging consolidation of small suppliers or encouraging new entrants. Such intervention should be well-justified and transparent.

There is a tension between efficient provider scale and provider diversity. For example, the Blind Foundation pointed out that:

> [as] a national organisation we work directly with few government purchasers who centrally manage contracts. It would significantly increase our overhead costs if we had to negotiate individual agreements at a regional level, if for instance DHBs were given responsibility for the local purchase of sensory disability services … Fragmenting provision to very local levels and the use of intermediary

> agencies for managing payments such as those used for individualised and enhanced individualised funding will generally mean additional administrative overhead that could create significant financial and reputational risk for government. Managing those risks will add cost to the overall social service programme. (sub. 16, pp. 15, 20)

Alzheimers New Zealand warned that diverse approaches can impose costs. It pointed out that the strategy, purchasing and administrative arrangements of the current health-based contracting arrangements are:

> …replicated 20 times (through each District Health Board (DHB)) and nationally across the various public service departments. And with those fragmented arrangements comes risks (and actual) unplanned inconsistencies in approach that negatively impact the consistency and quality of services that people affected by dementia are able to access … Some efforts are underway to address some of these issues. To date though, new arrangements have been limited in number and scope. (sub. 27, p. 6)

Other inquiry participants submitted strongly in favour of small providers (see Box 4.3 in Chapter 4).

But small niche providers may be unviable should they be too small to generate the performance information needed to:

- run themselves effectively;
- be part of a wider information architecture that rewards good performance; and
- be an effective part of a learning system.[52]

Alternatively, small niche providers may be unviable if their financial reserves are insufficient to survive revenue shocks, or their overheads are too high relative to their size.

Efficient adaptation to local preferences does not necessarily mean a plethora of tiny local provider organisations. For example, the Blind Foundation (sub. 16) described a model that balances the costs and benefits of local adaptation against national consistency and infrastructure.

Smaller NFPs may not wish to get large, because size may threaten their mission, proximity to known clients, or other characteristics they hold to be important (Box 6.8).

Box 6.8 **Getting larger has trade-offs for NFPs**

NFPs are typically strongly mission-oriented (Appendix F). There are natural diseconomies of scale in mission – missions need to be more generic as organisational scope grows.

A larger organisation may no longer be able to attract (or necessarily want) staff with very narrow mission orientation. That may mean paying higher salaries. And as an organisation gets larger, more generic management skills are required.

So it might be expected that the organisation, its management style, its staff and salaries converge closer to that of an equivalent FP provider. None of these changes may be attractive to the organisation's current staff and stakeholders.

It is also difficult for NFPs to get larger through mergers:

> The [not-for-profit] sector has no mechanism for easily negotiating mergers or takeovers in the way that the commercial sector does. There are no shareholders, bankers, venture capitalists, or mentors brokering collaboration initiatives, and there are few if any measures with which an organisation can benchmark itself to other agencies. (Methodist Mission, sub. 4, p. 6)

Mergers between NFPs also face difficulties in negotiating a new mission acceptable to the merging parties. Notwithstanding these difficulties, some mergers do occur (Chapter 10).

[52] Niche providers are likely organised around one or more of: (i) technical specialisation; (ii) reaching a (potentially geographically dispersed) client group with a common identity; (iii) a particular location; (iv) a narrow (operational) mission; or (v) a narrow (philosophical) mission.

An efficient provider market is one that avoids monopoly, has providers operating at efficient scale, encourages investment and permits entry by innovative or more efficient providers.

Careful market design – with some assistance from the Commerce Act 1985 – can avoid the problems of monopoly provision. The other criteria can be difficult to achieve. Generally speaking, providers will know more about their costs and efficiency than will commissioning agencies; so it makes sense to give them room to contract and grow rather than mandating a particular size.

Subcontracting

Presbyterian Support New Zealand described how social services can be successfully delivered through subcontracting relationships:

> Presbyterian Support East Coast is contracted by MSD to provide family violence prevention through its Family Works service. Whakamana Whanau is a joint response with a Maori provider to family violence prevention. With Presbyterian Support as the fund holder Te Ikaroa Rangitahi delivers services in a kaupapa Maori framework to the same contract as Family works. Family Works is responsible for monitoring and ensuring timely reporting for both services.
>
> The Family Works part of this service has recently been evaluated with excellent outcomes. The next stage is to engage a Maori researcher to evaluate the Te Ikaroa Rangitahi service model.
>
> This style of funding ensures MSD has oversight by organisations with depth of experience, credibility and admin/management infrastructure to support outcomes achievement. (sub. 76, p. 6)

The Home and Community Health Association presented a contrary view:

> In our sector there has been considerable sub-contracting going on following the 2012 ACC service review. We have not seen any evidence that it has made any measurable difference in terms of better outcomes.
>
> We would be very concerned if the commissioning of home support for older people was devolved from District Health Boards to non-governmental organisations for the larger population based contracts. The examples from the ACC service review would apply to any other devolved commissioning:
>
> a) Providers working under sub-contracts have found that they have lost incentive to innovate because the administrative rate that is taken off the contract rate by the commissioning agency is what used to be their profit.
>
> b) Providers working under sub-contracts lose their ability to put in place their own quality measures and sometimes feel compromised by the ethics and quality of the commissioning agency.
>
> c) Providers working under sub-contracts lose their direct connection with the government agency. (sub. 114, p. 13)

Providers may feel that a direct relationship with government offers them more mana. And there is no question that the standing of a provider within its target community can matter for effective service delivery. But ultimately provider mana should not receive priority over achieving more effective social services.

Contracts for social services are relationship-intensive, reflecting difficulties in service specification and monitoring.

> The relationship between the Government contract manager and their understanding of the work of the organisation is imperative in specifying, measuring and managing the performance of services where outcomes are not easy to observe or attribute. Previously contracts managers were based in the regions but increasingly are based in Auckland, Wellington or Christchurch and may lack an understanding of the local environment. We also tend to see less of the contracts managers which is unfortunate as this provided a platform from which to build trust, identify areas of non-performance and share stories of success. (Community Care Trust, sub. 96, p. 3)

And social service provision can be very fragmented.

> The culture and leadership of the domestic violence, child abuse and sexual violence sectors is confusing and fragmented. There are multiple agencies working at multiple layers:

- There are over 200 – largely disconnected leadership, governance and multi-agency groups, networks and coordinators trying to address the problem nationally and regionally.
- According to MSD's Family and Community Services website they contract with 774 different providers for 'family violence' services. In addition, family violence services are contracted via Ministry of Justice (eg stopping violence programmes), and other government agencies. (The Impact Collective, sub. 130, p. 14)

Government agencies cannot efficiently manage hundreds or thousands of contractual relationships. The Commission has heard evidence that some of these relationships are in poor shape, reflecting in part the sheer number of relationships.

Provider subcontracting can be an efficient way to reduce the number of relationships managed by government agencies. *Prime contractors* – those with a direct relationship with government and their subcontractors – can devote more resources to individual relationships.

Smaller providers may fear the consequences of the replacement of a single government purchaser with a single non-government purchaser. The underlying problems – those associated with a single purchaser – remain in both cases, and are best dealt with by changing the service model. The bargaining power of small providers will be increased should they have the option of supplying multiple purchasers.

R6.14 Provider subcontracting can be an efficient way to reduce the number of relationships managed by government agencies, and to improve the quality of relationships overall. Government agencies should be open to providers of social services subcontracting the delivery of services to other providers.

A healthy provider ecosystem

Barnardos (sub. 12) suggested that the provision of social services can be viewed as an ecosystem, with three roles for providers:

- delivering services under contract to government;
- designing and implementing their own services and supports for clients and their families; and
- social enterprise.

Providers can choose one or more of these roles:

> The ecosystem model that we are articulating does not require organisations (or even service types) to fit neatly in one part of the system or the other. Rather it requires: explicit recognition of the role and objectives of each different part of the system, conscious choice about when to use which part, and some oversight to keep all parts in balance and to allow movement and learning between all three parts. (Barnardos, sub. 12, p. 12)

Some submitters considered a fourth role to be important – that of political advocacy:

> Community and voluntary groups argue that it is time to listen to their voice more and to ensure that the conditions exist that allow for engagement in public debate. (NZCTU, sub. 103, p. 14)
>
> The key role of community services providers is to be responsive to the needs of the most disadvantaged and inform government of the issues and gaps to ensure that resources and services are directed where they are most needed in an effort to reduce inequality and increase the health and welfare of citizens. (Auckland North Community & Development, sub. 22, p. 4)

Sturgess (2012) made a strong case for encouraging a diversity of service providers:

> …until recently, policymakers have not been particularly concerned with increasing the diversity of the supply side. Diversity serves a number of functions:
>
> a) *Choice*. Diversity increases the effective choice available to the beneficiaries of public services, at the individual and the collective level.

b) *Adaptability*. The public service economy is better able to adapt to changing circumstances when there is greater institutional diversity. It gives us a deeper 'gene pool' from which to fashion new institutional forms for an uncertain future.

c) *Innovation*. Different kinds of service providers with different backgrounds bring different perspectives to the challenge of delivering better and more cost-effective public services. Diversity allows for experimentation and problem-solving in parallel rather than in serial (trying one solution and only after it has been tested, trying another). (p. 8)

Like natural ecosystems, the social services system is better served by having diversity in service providers. It should be up to providers to decide the roles they wish to undertake in such a system. There may be trade-offs for organisations that span multiple roles. Such organisations are best placed to deal with those trade-offs.

7 A system that learns and innovates

Key points

- Key features of a system that learns are:
  - trying a variety of new ways of doing things;
  - tolerating trials that fail;
  - dealing with failure quickly;
  - identifying and selecting the variants that perform better; and
  - spreading the uptake of these more successful variants.
- A system that learns needs to have:
  - clear goals around improving the return on investment in social services in terms of better outcomes both for clients and for taxpayers;
  - strong incentives to find, and the flexibility to try, new ways of doing things;
  - information flows that provide ongoing feedback to service users, providers and commissioning organisations and citizens about what is working; and
  - the flexibility to take up successful innovations.
- Choosing commissioning institutions and service models that incorporate these features is likely to increase learning and innovation in the social services system. Devolved approaches to commissioning are well suited to a social services system that learns.
- Innovation in the social services involves introducing new or significantly improved services or business processes, for the purposes of getting better outcomes from available resources.
- The social services, with some exceptions, lag far behind many other services in adopting innovative productivity-enhancing business models. Such models are often enabled by modern information and communications technology.
- Innovation in social services is often small scale, local, dependent on a few committed individuals and incremental; but there are some examples of disruptive innovation that have dramatically changed prevailing business models.
- Risk aversion in government agencies and in not-for-profits (NFPs), overly prescriptive contracts, capital constraints and "bare-bones" funding partly explain low levels of innovation in the social services.
- There is wide acknowledgement of the importance of evaluation for continual improvement in the design and delivery of social services. In practice, evaluation of many social services is absent or of poor quality, or not given enough weight in subsequent decision making.
- Initiatives under way may improve the quality of evaluation. Yet a new approach is needed that better enables cost-effective monitoring and evaluation in real time across the system, using a wider range of information than is typically used in evaluations.

Lifting the effectiveness of social services in New Zealand will require a system that learns over time about what works, then selects the successful approaches and winds down the approaches that fail to achieve

good results. The chapter will set out the system characteristics needed to achieve these things, and how they differ from some current features that inhibit them. The chapter looks at barriers to innovation in the social services and ways of reducing these barriers. The chapter also identifies weaknesses in the evidence base for system-wide learning. Leveraging data and analytics to address these weaknesses is discussed further in Chapter 8.

7.1 A system that learns

Complexity and uncertainty make it difficult to solve social problems

Social services commonly address problems involving complex human interactions among people with multiple and interdependent needs (Chapter 2). Solutions are often uncertain and incomplete because:

- the underlying causes are specific to a particular individual, family or community; and
- once services deal with some aspects of a complex problem, other aspects emerge unpredictably and in unintended ways.

Solving complex problems requires a system that can respond to unintended negative consequences when and where they emerge by trying new approaches and selecting the most promising solutions.

A system that learns needs to place a high value on evidence about what works. Where evidence on what works is lacking, the system needs to allow and then evaluate a diverse range of innovative approaches. A search for a solution will likely consist of a gradual refining of the approach to improve its effectiveness as further evidence accumulates.

> Top-down initiatives and restructures tend not to work because, as complexity theory teaches us, the most effective change in a complex system comes about endogenously and incrementally, rather than externally and suddenly. Innovation comes about through learning over time. (Muir & Parker, 2014, p. 68)

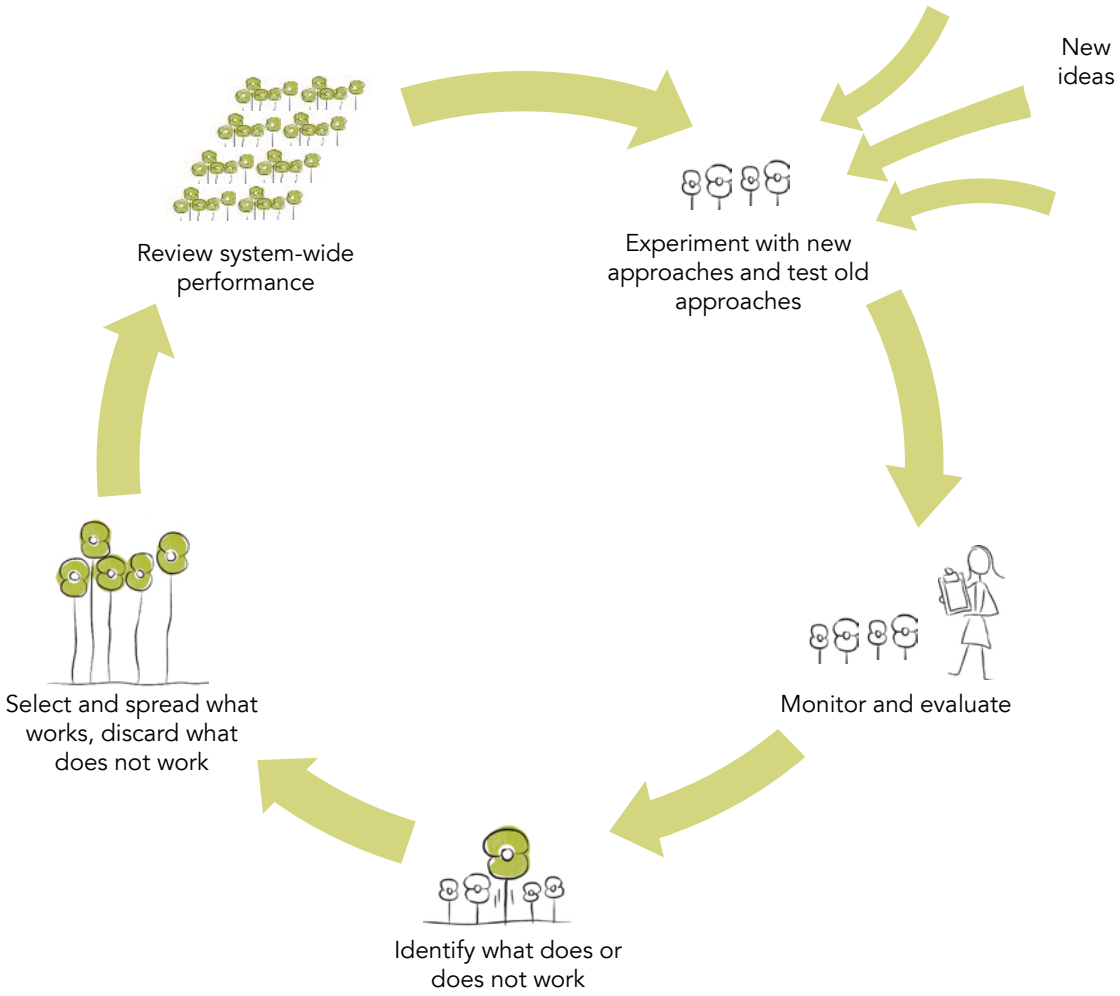
Trying new ways of doing things and selecting the successes

A system that learns needs:

- clear goals around improving the performance of social services;
- strong incentives and the flexibility to find and try new ways of doing things and test them against current approaches;
- ongoing feedback to the users and providers of services and commissioning organisations about what is working (Chapter 8); and
- a means to discard the less successful and the failing services, and to select and spread the successes.

Commissioning organisations need to build system-wide perspectives and understanding of how the system is performing as a whole (Figure 7.1).

Figure 7.1 A system that learns



The Australian National Disability Insurance Scheme (NDIS) demonstrates how a large-scale reform can be set up to learn. The NDIS is an ambitious, innovative approach to giving people with permanent disabilities more effective choice of the supports they need. The Scheme is being rolled out over several years (Chapter 3). The National Disability Insurance Agency (NDIA) is implementing a "learn-build-learn-build" approach to continually improve the Scheme's design while meeting quarterly performance targets. The Chair of the NDIA, Bruce Bonyhady, sees this as:

> similar to computer software companies which regularly update their programs based on user feedback and research, but is unusual in social policy. Since the scheme's inception we have redesigned and introduced significant improvements every six months. These changes are based on evidence and the NDIA now has more data on disability in Australia than has ever been available. (Bonyhady, 2014a, p. 4)

Bruce Bonyhady told the Commission: "The only thing we can get wrong is not learning…It is only through trialling you discover the real implementation issues."

Choice of commissioning institutions and service models matters for innovation

Different commissioning institutions and service models have different strengths and weaknesses in trying and selecting new approaches. A centralised top-down approach tends to generate fixed decisions about what works with too little tailoring of services to particular circumstances and discourages bottom-up experimentation. A top-down approach with political leaders at the apex emphasises risk management and has a low tolerance for failure. Such a model, even with experimentation, tends to dampen innovation because:

- experiments are subject to tight specification, reducing the possibility of serendipitous findings;
- experimentation is limited to relatively "safe" dimensions; and

- pressure to adopt "best practice" can lead to a one-off improvement, but eliminate service variations that might form the basis of future best practice.

A totally decentralised approach permits a lot of local experiments, but applies little pressure to select successful ones. Ineffective services continue to operate indefinitely.

New Zealand has a highly centralised approach to commissioning social services (Chapter 2). The main funder, central government, takes most of the responsibility and is the main player in deciding what services should be provided to what clients. Commissioning organisations stress risk management, which poses a barrier to learning (Chapter 4; section 7.3).

> Most providers of public services, whether currently in-house or independent, have been bred to obey the diktats of their funders. Shaking this habit will take time (Haldenby, Harries & Olliff-Cooper, 2014, p. 61)

While there is a continual stream of new initiatives, usually designed and specified from the centre, these rarely generate widespread change in the social services system. Instead they are quickly superseded by yet further initiatives (Chapters 2 and 4). Meanwhile, funding for many existing services continues with relatively little evaluation or policy attention.

Even so, commissioning organisations have sometimes encouraged decentralised and diverse solutions for some services. Yet without adequate evaluation and recognition of what does or does not work, no effective means exists of expanding successful approaches and curtailing unsuccessful ones. Social Sector Trials are an example where responsibility for finding coordinated local solutions to specific problems has been handed over to local staff, without a system for collecting data in a standardised way to permit evaluation.

Devolved commissioning for learning and innovation

Devolved approaches to commissioning services are well suited to a social services system that learns. Devolving commissioning to regions, communities of interest or subsidiary national organisations distances the choice of new approaches from risk-averse central government ministers and officials. Moreover, regions, communities and organisations vary not only in the nature of their social problems but also in their capabilities and perspectives. They are therefore likely to generate quite different solutions (section 7.3).

Service models that are particularly suited to encouraging bottom-up innovation and learning and the spread of successful new ideas include managed markets, shared goals, client-directed budgets (CDBs) and voucher models (Chapter 6). By putting weight on the achievement of outcomes or meeting client needs, these service models reduce the need for prescription and provide more scope for providers to test new ways of doing things.

In some service models such as managed markets, CDBs and vouchers, providers also face competitive pressures to innovate. Providers can gain a greater share of the market if they are successful. This provides a mechanism for successful new ideas to spread (section 7.3).

F7.1 Service models without overly centralised control encourage learning in the social services system. They foster diversity and encourage the selection and expansion of effective services and the curtailing of less effective ones.

7.2 Innovation and why it is important

There is a continuing stream of innovations in social services in New Zealand (Chapters 2, 3 and 4). Some have proved successful and led to shifts in the social services landscape. Many others have tackled troublesome issues without resolving the underlying problems. Further, in many parts of the system, social services continue to operate relatively untested in much the same way as they have for many years.

In contrast, many services in other parts of the economy, such as banking and retail, have experienced disruptive business re-organisation over recent decades, facilitated by information and communications technology (ICT). For example, service firms have used ICT to process transactions more efficiently, improve knowledge about customer behaviour, allow rapid testing of alternative services, speed up information feedback loops, streamline supply chains and change the locus of decision making. This has led to strong productivity growth in many service industries (NZPC, 2014a).

If productivity growth in social services does not match that in the wider economy, social services will become relatively more expensive as wages rise. To get more from existing resources:

- the social service system needs to generate more innovation and learn more effectively from successful innovations; and
- commissioning organisations and providers of social services need to better understand and address the barriers to successful innovation.

Innovation in social services

Social services are typically relationship intensive, often involving skilled interpersonal interactions that might seem to offer limited opportunities for innovation. Yet the definition of innovation used in the business context suggests that there is in fact wide scope for innovation in the social services. Statistics New Zealand (2012) defines *business innovation* "as the introduction [by a business] of any new or significantly improved goods, services, processes, or marketing methods".

In the social services, innovation could, for instance, involve:

- finding new types of services that are more effective in achieving results, especially for complex hard-to-solve issues;
- re-designing services so that they are more effective and more cost effective at achieving results for clients;
- re-designing business processes so that the costs of engaging with clients is reduced for the client and the provider;
- identifying and providing services for new groups of clients; or
- commissioning services in a way that makes better use of information about what works, for whom, and how much alternative approaches cost.

Innovation can be relatively small scale, local and incremental; at the other extreme it can involve system-wide step changes that involve large investments. Some examples of social services innovation in New Zealand are given in Box 7.1.

Box 7.1 **Examples of social services innovation in New Zealand**

Youth Horizons has introduced new (to New Zealand) programmes for young people with severe conduct difficulties, based on international evidence on effective programmes. Introduction involves careful implementation to show that the programme is working as intended and suits local conditions (sub. 67).

From the early 2000s the Wise Group:

> …was able to substantially disinvest in high cost, low service volume bed based services [for people with complex mental health needs] and reinvest in mobile support services that enabled people to live well in their own home. Service access increased markedly over this period. (sub. 41, p. 19)

Wise Group has since introduced employment services for this client group, targeted at the open job market which "was seen as revolutionary at the time". (sub. 41, p. 19)

Relationships Aotearoa is implementing a "truly mobile client management and feedback system" that enables counsellors to work with clients wherever they are, record progress and provide counsellors with feedback about their practice. "Data is captured in real-time, is accurate, and not reliant on a high level of administration to maintain and extract for reporting purposes" (sub. 56, p. 9).

The Ministry of Social Development (MSD) uses randomised controlled trials to identify which types of employment services work best for which clients in terms of reducing long-term benefit dependency. This information is used to assign clients to services in a way that makes best use of the Ministry's resources in achieving the outcomes sought by the government (Chapter 3; Appendix B).

A European panel of experts looked at innovation in the social services and concluded:

> …innovation in social services is characterised by **incremental changes** and adaptations rather than disruptive processes. Most of the time, an innovative solution is characterised by the implementation of a new idea or a new step into a pre-existing process in order to better adapt it to new needs and/or make it more efficient. This kind of cumulative change can have greater impact on the quality and responsiveness of social services in the long-term but they are not always visible in the short-term. (Laino & Sütó, 2013, p. 5)

The Australian Productivity Commission (APC) (2007, p. 70) came to a similar conclusion about the nature of innovation in small service firms in the market sector: "…many service sector innovations arguably reflect the routine, incremental experimentation that is merely part of the business of being a successful service supplier".

Yet APC (2007) argued that large service firms and those that have significant economies of scale often innovate using technology and complementary investments (for instance in ICT hardware and software) to obtain gains from coordinating across multiple functions. As a result, even though the ideas are not expensive to create, and are easily understood by other firms, "their detailed realisation does involve large resource requirements". So it is not easy for other players to copy them (p. 70).

The same is likely to be true to some extent of larger players in the social services sector. Social services, like other services, are transaction intensive. Providers should be able to transform their business models using ICT, just as service firms in other parts of the economy have done. "…collecting, accessing and data sharing is the central feature of so many social services…" (Mansell, 2015 p. 26).

F7.2 Social services providers have not, for the most part, been affected by the disruptive innovation that has transformed many market services. Services firms in other parts of the economy have adopted new productivity-enhancing business models enabled by information and communications technology.

F7.3 Social service providers have many opportunities to use information and communications technology to transform the way they engage with clients and commissioning organisations, and the way they design, monitor, evaluate and adapt their services.

7.3 Generating and spreading innovation

Where do ideas come from?

New ideas in the social services can come from any direction. Sources might include, for instance, local reflection on practice, client and community feedback, the example of successful social service practice elsewhere in New Zealand and internationally, or new private sector business models and innovations using ICT.

The New Zealand Council of Christian Social Services submitted:

> Community level innovation emerges from a variety of sources; it often occurs as a result of passion, drive and appropriate resourcing. Community organisations will use their infrastructure to provide venues, staffing and accountability structures for new initiatives. This is usually done at the cost of the community organisation which may start off just using their resources and skills to take a new approach. As additional needs and solutions are identified this may lead to a funding application to a philanthropic group, then after further refinement and development this may emerge as a bid to a government agency for support. (sub. 35, p. 8)

The Waimakariri District Council also stressed the importance of local initiatives:

> Innovation is more likely to be achieved at local level by people perceiving a need and having the imagination and energy to make changes, or by organisations confident in their role in providing services working beside other organisations undertaking similar work … to compare methods and outcomes and learn from each other. (sub. 75, p. 3)

On a much larger scale, MSD's Investment Approach (Chapter 3 and Appendix D) drew ideas from the operation of the Accident Compensation Corporation (ACC), and from private sector development of real-time evaluation facilitated by ICT.

Philanthropists, social enterprises and for-profit (FP) businesses can be valuable sources of new ideas for social services. An important advantage of these sources is that they can act more freely and independently than governments, as they are not subject to the same political risks or other constraints.

Organisations can also use commissioning expressly to generate more innovation in social services. For instance, social bonds have generated innovative ways to address difficult-to-solve social problems. Government social services agencies sometimes engage non-government providers to bring fresh ideas to areas where state provision has traditionally dominated (Chapter 3).

Stand proposed that government agencies and non-government providers co-create and co-produce innovative approaches:

> Stand is aware that a range of alternative commissioning models are being tested both in New Zealand and internationally. Evaluation on the effectiveness of these approaches is in the early stages although indicators are promising for some, such as the Social Sector Trials. Internationally, commissioning approaches appear to be more ambitious and more comfortable in taking a higher level of innovation risk to try different approaches, reflected in an attitude of – Have a go "fail fast", keep focused on the outcomes sought, adapt efforts quickly, take the learning forward, have another go.
>
> Strong trust-based relationships developed between commissioning agencies, government and service providers that focus on co-creation and co-production would create a stronger partnership/accountability culture and in turn provide more stability for innovations that need long term investment. (Stand, sub. 127, p. 12)

Lack of new ideas is not, by itself, likely to be a constraint on innovation in the social services. However, the social services system with its current institutions favours some sources of innovation over others and dampens innovation overall.

> Government officials often think they know best when in the disability sector they often don't and the real innovation which is in the community is either lost or not funded through the Government initiatives that Officials develop. (Workbridge, sub. 102, p. 9)

Central government currently has a dominant role in sourcing and gatekeeping new ideas for resourcing and trying out. This not only limits the size and diversity of the pool of new ideas; it tends to bias the selection according to political preferences, aversion to political risk and officials' need to keep control. The system needs to permit and encourage a greater flow of new ideas from "below", whether from social entrepreneurs, philanthropists, not-for-profit (NFP) and FP organisations, or from service users and communities.

F7.4 The social services system appears to be too focused on central government as a source of new ideas, and as a gatekeeper of which ideas are trialled. This limits the size and diversity of the pool of new ideas available to commissioning organisations. The system needs to do more to permit and encourage trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, service users and communities.

Innovation in government provision of social services

Innovation in government services has an important role in promoting more effective social services. Yet government-provided services typically do not provide much room for experimentation. In particular, some services, such as policing, child protection and corrections, involve the exercise of coercive powers and close judicial scrutiny. Providers of such services need to follow prescribed processes rigorously, which limits innovation.

MSD's innovative Investment Approach to designing and targeting employment services for recipients of income support is a notable exception where experimentation and re-deployment of resources to more effective service models is built into the design (Chapter 3). Yet, while the Investment Approach is good at trialling and allocating resources more efficiently across different designs and client segments, it does not by itself encourage bottom-up innovation in the way that case managers work with clients.

The Public Service Association (PSA) argued that "there is … evidence that there is much innovation within the public sector, but it is often not recognised or well-supported" (sub. 108, p. 10). The PSA pointed to initiatives such as a project that successfully reduced the time taken for scheduling acute appointments at the Bay of Plenty District Health Board from 5 hours to 1.5 hours, reduced the need to re-book appointments and allowed patients to choose their appointment times so that they were more likely to turn up. The PSA argued that "culture change needs to be normalised, to become the 'way we do things around here', so that lessons are systematised and used to innovate and improve outcomes, and failures are examined for ideas on how to improve" (p. 10).

Yet, consistent with the discussion in section 7.1, the PSA also argued that "the top-down managerialism enshrined in the State Sector Act 1988 … does not help create a culture of high-trust workplaces where all workers contribute to public value and are supported as entrepreneurs" (p. 12).

Governments recognise the value of innovation in government-provided services. The Better Public Sector Advisory Group (BPSAG) identified in 2011 that "sharply improved state sector performance will require a culture that supports and actively encourages innovation and continuous improvement" (BPSAG, 2011, p. 39). BPSAG recommends that the government require "state agencies to drive continuous business process improvement through the use of 'lean' methodologies and to drive innovation by benchmarking activity, identifying and implementing best practice from across the system" (2011, p. 11). Clearly this recommendation covers government-provided social services, and MSD's Investment Approach is an example of the recommendation being adopted. Yet the PSA judges that the Better Public Services Programme and amendments to the State Sector Act in 2013 "indicate a rather limited view of the imperative for change" (sub. 108, p. 12).

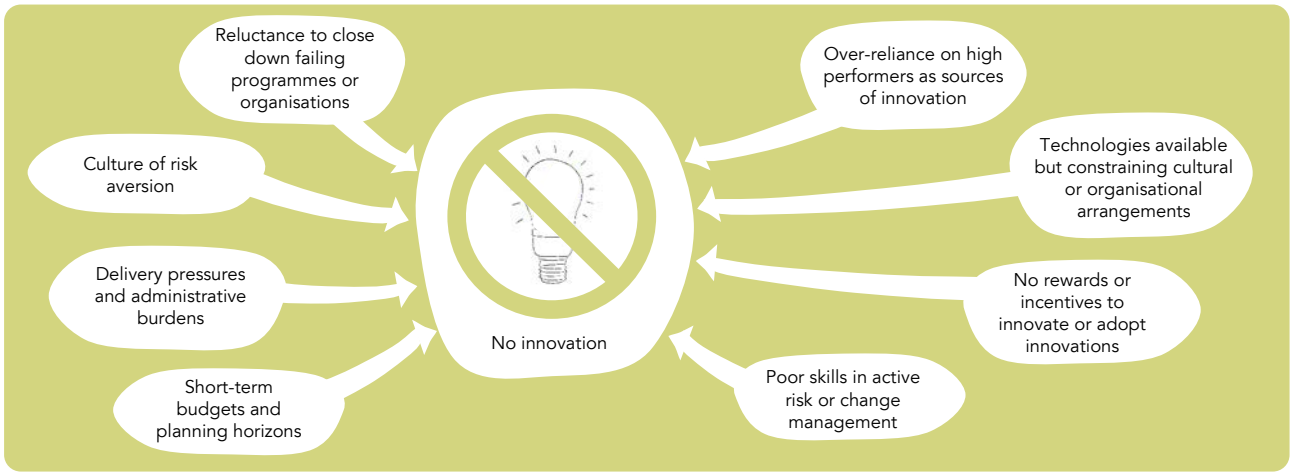
The Australian Government Management Advisory Committee made 12 broad recommendations in 2010 on fostering innovation in the public services (Australian Government, 2010). The recommendations covered strategy and culture; leadership; resourcing and management; and recognition, sharing and learning within the Australian Public Service. Each recommendation has a number of components, in sum

presenting a complex and inter-dependent map of proposed changes. Making sustained progress across such a broad range of initiatives represents a significant challenge in face of the barriers recognised by the report:

> Some powerful barriers, in particular political risk and public scrutiny, have a specific impact on public sector innovation. Governments and ministers are judged on their success and, in seeking to avoid criticism or failure, they can be conservative or resistant to innovative approaches. Political risk also contributes to risk-averse attitudes among public servants, and innovation is inherently risky. In the public sector, failures tend to happen in the full glare of public scrutiny, with consequent risks for the reputations and careers of public servants. It can be easier to avoid criticism by not taking risks. (Australian Government, 2010, p. VII)

Mulgan and Albury (2003) identify the same and other barriers to innovation in the public sector (Figure 7.2).

Figure 7.2 Barriers to innovation in the public sector



Source: Mulgan and Albury, 2003.

One recommendation made by the Australian Government report was for the public service to:

> …establish a collaborative experimentation programme, modelled on the Danish MindLab, to develop and trial solutions to significant and cross agency problems in areas including policy and service delivery. A key activity under this program would be the development and implementation of collaborative pilots and trials. (Australian Government, 2010, p. X)

> …MindLab is a cross-Ministry innovation lab that facilitates the active involvement of citizens and businesses in developing new public sector solutions. MindLab specialises in facilitating discussions between public servants, citizens and business out in community settings. It uses the outcomes to redesign public policy in key areas. (Kelly, 2010, p. 1)

The MindLab model chimes with research that shows that public sector innovation often happens at middle levels in an organisation, led by individuals who are constructively engaged with service users, and who are willing to work around current rules and procedures (Eppel et al., 2008; Mulgan & Albury, 2003). Public sector innovation often involves crossing organisational boundaries and process re-engineering (Borins, 2001).

In other jurisdictions, non-government foundations hold competitions, such as the Ford-Kennedy School of Government awards in the United States, for public sector innovation (Borins, 2001). In New Zealand, the Institute of Public Administration New Zealand holds a yearly competition for public sector excellence in a number of categories (IPANZ, 2015). Innovation is one criterion on which the awards are made.

Not-for-profits are reluctant to take on the risk of innovating

NFPs often match government agencies in their unwillingness to take on the risk of innovation. NFPs are less able than FPs to raise capital to fund innovation. NFPs also generally face the risk of high dependence on a single (government) buyer who prefers short-term contracts and has the regulatory power to shift the goal posts down the track. NFPs are therefore less likely to take on the risk of innovations that involve large

investments in equipment, recruiting new staff, training or substantial organisational change (Appendix F). They are likely instead to favour incremental innovation in business processes and service refinements, in much the same way as small private-sector service firms do (APC, 2007).

Yet large NFPs with diversified funding sources are less constrained than their smaller counterparts. Some larger New Zealand social services NFPs such as the Wise Group, Barnardos and the Auckland City Mission have introduced significant innovations. Large NFPs sometimes establish joint ventures, set up research capabilities in-house, and extend their professional capabilities by adopting new evidence-based methodologies.

F7.5 Many social services currently involve risk-averse government agencies contracting for services from not-for-profits who are unable to take on the risk of innovation. The combination stifles innovation.

Innovation and risk sharing

Innovation carries risks for any organisation or business. Innovation may require capital investments, substantial re-organisation of business processes and the re-deployment of staff. The investment may be lost if the innovation is unsuccessful. NFPs rely mostly on current and retained earnings to fund the costs, and underwrite the risks, of innovation, as they have limited ability to raise capital (Appendix F).

The difficulty that NFPs face in funding their innovation is exacerbated if payments for services are insufficient to cover the full costs of supply (Chapter 6). NFPs often have limited capacity to spread risks across customers, service lines and regions. Short-term contracts and payment for outcomes also increase financial risks for NFPs (Restorative Justice Aotearoa, sub. 28).

Many submitters saw the tight budgets of NFPs as a main reason for the social services lacking innovation. Many argued that government agencies need to bear more of the risk of innovation (Box 7.2).

Box 7.2 **Risk and difficulty in raising funds can stifle innovation by NFPs**

The Methodist Mission submitted:

> ...the sector [non-government social service providers] has a nasty habit of undercapitalising its innovations leading to high rates of innovation failure that are frankly inhibitive. (sub. 4, p. 21)

The Salvation Army reported:

> Community Ministry does attempt to encourage innovation despite the very tight budgets they work within. They have approached Ministry of Social Development on some occasions to raise key issues and ideas. Community Ministry have also challenged and declined to bid for some Requests for Proposals (RFP) on the basis that the RFP required services were too risky or achievement of the outcomes for the funding being offered was highly unrealistic. (sub. 104, p. 7)

Others submitted:

> There is an inherent tension between delivering business-as-usual and exploring new ideas and testing them. This requires an organisation to develop a culture of innovation and to be willing to risk some of its capital to invest in innovation for the future. This can be very difficult for smaller enterprises. (Blind Foundation, sub. 16, p. 33)
>
> Contracts linked to contributory funding demonstrate a lack of commitment and investment by government in outcomes for that community/population. It is difficult to innovate when constantly having to focus on cash-flow issues and alternate sources to 'top up' funding. (Inclusive NZ, sub. 32, p. 7)
>
> Innovation will always include an element of risk and at government level there appears to be a low appetite for any risk but a high appetite for organisations to work differently and innovate. The risk is therefore left with organisations that operate in an unstable funding environment with

limited capacity to predict longer term funding streams. (Birthright New Zealand Inc., sub. 128, p. 4)

In reality providers are averse to taking risks or taking bold approaches to service delivery because of the potential impact this might have on their bottom lines or prospects for further contracts. (Restorative Justice Aotearoa, sub. 28, p. 7)

Innovation and experimentation means risk. Some public service agencies are highly risk averse – this means the organisations they contract are unlikely to take risks as well. The public service funders and the social services agencies must be able to take risk, and where necessary learn from failure – and not be punished for it. (New Zealand Council of Christian Social Services, sub. 35, p. 8)

F7.6 Innovation is risky and sometimes costly. Not-for-profit organisations cannot easily raise funds for investments. As a result, access to capital and limited cashflow are significant barriers to innovation in parts of the social services.

Submitters offered a range of solutions to the negative effect of funding arrangements on innovation. Understandably, many saw higher levels of government funding as an answer, perhaps tagged specifically to innovation:

We recommend fostering an increase in bottom-up experimentation through the inclusion of innovation funding as standard across service delivery contracts. Collation of this information and sharing what does work to shape future service delivery and celebrate most promising practice would be welcomed. We do not believe the current system reinforces successful approaches nor do we believe it encourages the reform of less successful approaches. (Community Care Trust, sub. 93, p. 3)

It was suggested that local innovations be funded as pilot schemes and, if successful, rolled out and adapted to other communities across the country. (National Council of Women, sub. 20, p. 2)

One way to encourage innovation would be to have a supplementary innovation fund in contracts that could be accessed subject to a proposal for new or better ways to achieve outcomes. (Social Sector Trials, sub. 126, p. 17)

Lifewise argued that government needs to fund innovation directly:

Government needs to accept the risk inherent in testing new approaches, and commission innovative new approaches. Funding should be allocated to further developing social services, rather than simply funding services to continue to deliver the same results. Government could commission 'test contracts' that would enable providers to try new approaches to solving social issues. Developing fail-fast systems where failures in the system could be quickly identified and resolved would ensure that programmes could be refined in real-time, and reduce the risk of new programmes not delivering good outcomes. This design process used often on business start ups is also useful in the social service space.

There should be a culture both within government and in not-for-profits of continuous improvement. If government wants more results with less, then it needs to fund community organisations to come up with innovative ways to achieve their goals without compromising their outcomes. Government needs to partner with community providers to be 'contract makers' not 'contract takers'. (sub. 46, pp. 2–3)

Relationships Aotearoa submitted that government funding for capability development had enabled it to put in place innovative use of IT systems to manage customer relations and capture real-time data on client progress:

Much of this innovation was funded by the Capability Investment Resource (CIR) administered by MSD. Without this level of investment from MSD we would not have been able to develop these systems in the way we have. (Relationships Aotearoa, sub. 56, p. 9)

Footsteps Education (sub. 42) supported the idea of a public endowment to fund innovation in services addressed at reducing child maltreatment. Other submitters saw philanthropic funding as a promising source of support for innovation:

> Small, agile NGOs that can access philanthropic funding/grants often have a better chance of being innovative and creative. If they do not receive any government funding, they have little to lose in experimenting with new ideas and approaches, in the best interest of improving the quality (and quantity) of service delivery. (New Zealand Disability Support Network, sub. 47, p. 14)

> There is a real need for opportunities for innovation to be undertaken at a privately funded local level. This innovation needs to have opportunity for being tested without the fear of failure. (BOP Community Response Forum, sub. 53, p. 2)

Barnardos proposed that while government should fully fund activities that are clearly linked to government objectives, NFPs would use their own resources, possibly subsidised by government, to pursue their own objectives. Through its support, government would gain "…the ability to test or trial new ideas and approaches at lower cost and lower risk than if it fully funded an activity" (sub. 12, p. 15).

Consistent with Barnardos' proposal, the Commission considers that where the government contracts with providers for the delivery of fully-specified services, payments should be set at a level that allows an efficient provider to cover economic costs. This will give providers the confidence and greater capacity to invest in innovation (Chapter 6).

R7.1 Organisations commissioning social services should set payments at a level that allows an efficient provider to make a sustainable return on resources deployed. This will give providers the confidence and greater capacity to invest in innovation.

Commissioning organisations could also contract providers to design and try out different innovative service designs to assess which is most effective in achieving desired outcomes. This might be similar to the approach that MSD takes in trialling different service designs for income-support clients (Chapter 3; Appendix B). Where the Government specifies and directly funds the development of an innovative programme and an evaluation that shows whether it works, it should own the intellectual property rights (IPR) and be able to promote the spread of the innovation through the social services system.

R7.2 Organisations commissioning social services should look for opportunities to contract providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should own the intellectual property rights.

Contract design and innovation

Because of the risk that other parties may challenge contracts and contractors' performance in the public arena, government agencies and contractors tend to prefer highly specific contract terms and payments that relate only weakly to performance (Spiller, 2008). Contracts that specify inputs, processes and outputs make it easier for each party to demonstrate that the terms of the contract have been met.

Over the last 25 years, public sector agencies have moved to more detailed, mostly outputs-based, contracts and audits for government-funded NFPs (Garlick, 2012). Yet, in submissions, providers of social services generally view negatively the current degree of prescription in contracts. In particular, many submitters consider that prescriptive contracts stifle innovation (Box 7.3).

Box 7.3 **Prescriptive contracts can stifle innovation**

The Youth Wellness Trust referred to:

> … highly prescriptive and inflexible service specifications that stifle innovation, deliver poor outcomes and unwittingly increase risk because they do not reflect actual need. (sub. 73, p. 5)

Stand Children's Services Tū Māia Whānau similarly argued that:

> [t]he current form of government contracts is also restricting innovation due to an over emphasis on performance risk resulting in 'directive' contracts that specify to the highest detail, limiting flexibility to try new approaches. (sub. 127, p. 18)

Wesley Community Action provided a specific example:

> By nature, most government contracts restrict the opportunity to innovate as the reporting requirement tends to lead the service delivery – leaving no room for innovation. An example is Family Start – aimed to engage those Whānau most at risk of poor outcomes, yet there is no flexibility in the manner or number of visits by a Whānau worker. The lack of flexibility and lack of understanding the individual issues of each Whanau means a one size fits all approach which is risk adverse and thereby restricting innovative opportunities. (sub. 6, p. 2)

The Dunedin Community Law Centre considered that prescriptive contracts, by stifling innovation, can lead to service provision that lags behind international practice:

> … if there is limited room for a service to develop and demonstrate their own ideas, this may discourage services from doing exactly this. In order to keep pace with the ever-developing world we live in, we need to ensure that services are continuously encouraged to research and develop new ways of doing things. Being at the coal-face of the issues, as they deal with clients on a daily basis, social services are indeed best placed to be undertaking development of new techniques and methods for service delivery, and they need the freedom to be able to do so. Highly prescriptive and limiting contractual arrangements between services and government will not help this. Failure to encourage social services to innovate may lead to New Zealand lagging behind their global counterparts in terms of programme development and service delivery, with the potential to let social service users down. (sub. 48, pp. 8–9)

Te Rūnaka o Ōtākou simply stated:

> The risk-averse nature of most government contract managers makes bottom-up experimentation and innovation virtually impossible. (sub. 110, p. 10)

F7.7 Many government contracts with social services providers are overly prescriptive. This stifles innovation.

Some submitters advocated alternative, less prescriptive, contracting approaches to foster innovation:

> The Salvation Army submits that the process should be where the key issue or need was presented by the agency, and then proposals were invited from NGOs essentially asking 'what would you do?' to address this issue or need. This kind of process is less restrictive or prescriptive, and also allows for greater innovation in service design and delivery. The contract requirements and details should not necessarily be written by agency officials and policy makers isolated from vulnerable communities, or who might not have the real life experience of social service provision to vulnerable and marginalised New Zealanders...
>
> The Salvation Army offers examples like the Hauora Programme, our involvement in the Drug Court pilot projects, and our public health work in gambling addictions as some examples of client-led and innovative service design and delivery. (The Salvation Army, sub. 104, pp. 20–22)
>
> Stand is participating in the MSD Outcomes Trial work and considers that outcomes-based contracts can contribute to more flexibility for service providers to try new service approaches based on understanding how social service outcomes are best achieved, and understanding the journey required

> to continuously respond to changing needs… (Stand Children's Services Tū Māia Whānau, sub. 127, p. 18)
>
> …if high level outcomes are identified and agreed then how the organisation works with individuals to achieve the outcomes is where creativity and innovation at a local level will stem from. (Community Care Trust, sub. 93, p. 7)

Wise Group (sub. 41) reported that contracts with the former Health Funding Authority (HFA) gave it the room to undertake substantial innovation in shifting from bed-based to mobile support services that enabled people to live well in their own home. Under the contract, the HFA required the Wise Group to experiment and report on innovation in services to improve outcomes for a specified population, but did not specify the model of care and service continuum.

MSD also recognised the advantages for innovation of less prescription in contracts:

> We could…redesign contracts to encourage innovation and ensure accountability in the design of service delivery amongst providers. At risk clauses and tight service specifications can enhance accountability but there is a risk that they could stifle innovation by limiting the ability of providers to tailor services to clients. This tension will need to be carefully managed in new contracting approaches. (sub. 72, p. 5)

Better evidence on the impact of services and less prescriptive contracts for outcomes, with longer durations, would give providers both a stronger motivation and more flexibility to innovate. Yet circumstances do not always support the use of contracting for outcomes (Chapter 12). A greater use of more decentralised service models could substantially reduce prescription, increase the focus on outcomes and provide more room for providers to innovate (Chapter 6).

R7.3 Social services commissioning organisations should shift more contracting towards contracting for outcomes and make greater use of decentralised service models. Doing both would give providers increased flexibility and incentives to innovate.

How do successful innovations spread

The spread of successful new ideas and the elimination of less effective or unsuccessful services are central to a system that learns (section 7.1).

In a normal market, the choices of consumers, suppliers and investors, influenced by the prospect of profits, stimulate the production of new goods and services that represent the best value for money in the eyes of consumers. The rewards of profit and higher wages, and the willingness of investors to fund goods and services that go well in the market, are the key mechanisms that expand these goods and services and conversely shut down those that do not go well.

While social services commissioning institutions and service designs have some of the same dynamics as normal markets, in many, if not most, cases, the funding decisions of ministers and officials shape which innovations spread. Selecting and spreading successful innovation within the public sector faces similar barriers to the generation of innovation (Figure 7.2). Where innovations are selected, public sector organisations tend towards identifying and then universalising "best practice". This then limits diversity and further experimentation. Conversely, government is reluctant to close down failing programmes or organisation as doing so limits the resources available to support the spread of successful innovations (Mulgan & Albury, 2003).

Albury (2014) identified five *mistaken* assumptions about the way in which innovation spreads in publicly funded services.

"Scaling and adoption are just informational issues"

In fact, factors such as the advantages innovations offer, how well they fit with existing values and practices, how simple and easy they are to use, whether they can be tried out on a limited basis first, and the observability of their results are highly influential in the spread of innovations (Robinson, 2009).

"Practices spread and scale through transfer from one organisation (or locality) to another"

In fact, innovative organisations growing and displacing the unsuccessful ones makes a stronger contribution to the spread of innovations than the transfer of ideas across organisations.

"Innovation and scaling ('pilots' and 'rollout') are separate and sequential processes"

In fact, innovating at scale requires identifying and thinking from the beginning about the demand and necessary conditions for implementing at scale.

"Increasing the pipeline of innovations increases the likelihood of scaling and adoption"

This puts too much weight on the supply side and ignores the demand for innovation. The perceived need for change and the factors that make innovations attractive and easy to adopt influence demand.

"Professionals are the key agents of scaling and adoption"

In fact, user demand is the key driver of innovation. For example, in Australia and the United Kingdom disabled people drove the change to individualised funding for support services (Chapters 3 and 10).

Demand from users (individuals, families or communities) is the main driver of the spread of innovation. Devolved service designs that give weight to user preferences and allow successful innovations to replace failing or less successful services are likely to be best at spreading innovation.

Short of this, a more centralised commissioning approach needs to be systematic and ongoing in identifying and increasing the share of successful innovations and, conversely, eliminating less effective and failing services. Barnardos, for example, proposes that the costs of funding new innovative programmes are met by decommissioning less successful programmes (sub. 12, p. 16).

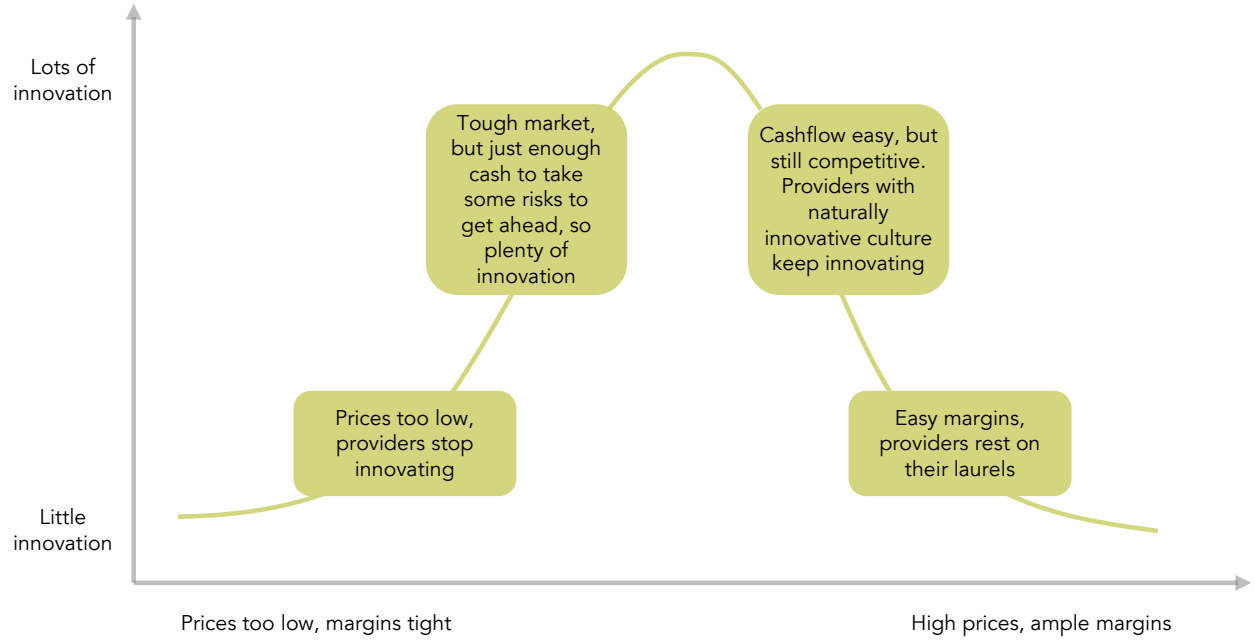
Managed markets, client-directed budgets, prices, information and innovation

Managed markets, client-directed budgets and vouchers are service models that, if well designed, support the generation and spread of successful bottom-up innovations.

Managed markets allow multiple providers to compete for market share. Managed markets are intended to mimic the dynamics of, and achieve some of the benefits of, normal markets. A main reason for using managed markets is that they can encourage innovation and the spread of successful new ideas. Contracted employment services for welfare benefit recipients are Australian examples of a mature managed market. Providers compete for market share based on how successful they are in helping clients find and stay in a job. Yet the high degree of prescription in contracts and guidelines has likely limited how much providers' can innovate (Chapter 3; Appendix B).

In managed markets, client-directed budgets and voucher service models, commissioning organisations more often than not set prices, and service providers compete for market share. The prices that commissioning organisations set will affect how willing providers are to innovate. If providers can do no more than cover their ordinary costs, they will be reluctant to innovate. Yet if prices are so high that they can make easy margins, providers will also have less reason to innovate (Figure 7.3).

Figure 7.3 Price and innovation: the innovation bell curve



Source: Haldenby, Harries and Olliff-Cooper, 2014; Productivity Commission.

CDBs are likely to generate a high level of diversity and experimentation, because funding and decision making are highly devolved. Clients have strong incentives to find the mix and quality of services that best suit their needs within their budget. Providers, alert to the market opportunity presented by the buying power of the clients, will be keen to offer attractive services (including some that are novel) and make innovative use of new technologies. Clients choose the services they prefer and pay the provider for them. As a result, the successful providers have the incentive and funding to expand their supply of those services.

For this market-selection process to work well, it is critical that customers are well informed about the services they can choose. This is not something that can necessarily be relied on. Often customers find it a considerable challenge to know the characteristics and effectiveness of services that they are buying. As the Commission said in its report *Boosting productivity in the services sector*:

> By seeking the best value, consumers play an important role in the competitive process. However, search costs (ie, finding a preferred supplier) and switching costs (ie, changing suppliers) are particularly pronounced in some service markets. These costs can reduce competition by making it difficult for consumers to compare different service providers and respond to price and quality signals.
>
> Well-informed consumers that are able to switch between suppliers, increase the intensity of competition. ….[But] competition can be diminished if service offerings become so complicated that consumers face prohibitive costs in evaluating competing service offerings in order to identify the best option. (NZPC, 2014a, p. 4)

When parents face the important decision of which school their children will attend, the government helps them make an informed choice by providing information about schools In New Zealand. This information is mainly through Education Review Office (ERO) reports on each school.

Similar information is likely to help other social-service users to make choices that result in the selection and expansion of effective services and providers. In the UK's National Health Service, people now have extensive opportunities to choose providers. For example, a patient needing a hernia operation will normally have a choice of hospital and even surgeon. The government assists with the patient's decision (or the GP's decision on the patient's behalf) by mandating the measurement and publication of a range of key performance measures for individual hospitals and surgeons (NHS, 2015).

Across the social services, information that compares the performance of services using a common measure is crucial to ongoing adjustment of service design and targeting to improve outcomes for service users. The more comparative information that is publicly available the better. Publicly available information on

effective services will build support for expanding them and help eliminate poorly performing services. Data and analytics to provide this information are the subject of Chapter 8.

F7.8 Good information that compares the performance of services using a common measure is crucial for building support for spreading successful innovation and eliminating poorly performing services

Who gets the benefits of innovation: policies to stimulate innovation

Government policies to stimulate innovation in the private sector are usually justified by the *spill-overs* that occur when innovations spread through the economy. Innovation is costly and innovators do not take account of the wider benefits when they decide how much to invest in innovation. Policies to increase the rate of innovation can include:

- research and development (R&D) grants;
- R&D tax credits;
- prizes (such as the Prime Minister's Science Prizes);
- intellectual property rights (IPR) protection; and
- promotion of collaboration between public institutions (such as universities and Crown Research Institutes) and private companies.

All these either increase the rewards to, or reduce the cost of, innovation.

Innovation in services (including social services) is often incremental and involves adjustments to business models and processes that are relatively easily observed by others:

> Spillovers appear to be ubiquitous in many parts of the service sector, though the innovative activities that lead to them do not necessarily involve R&D as usually defined. In these industries, many, but certainly not all, of the innovations visibly affect organisational structures, business processes and customer products. By their nature, the broad ideas underlying these innovations are easily understood and reproduced in ways that are far less ambiguous than for knowledge flows in any other part of the economy. (APC, 2007, p. 69)

APC (2007) argued that there is little justification for government support for innovation in services in a normal market:

> …most policy analysts contend that spillovers in the service sector do not affect the amount of innovation to a degree that would warrant *direct* public support for these activities… (p. 71)

These conclusions clearly do not apply in the case of social services, which rely heavily on public funding and usually lack the strong competitive pressures that drive innovation in services elsewhere in the economy. It is in the government's longer-term interests to stimulate the generation and spread of innovation in social services.

Further, innovation in social services is not necessarily easily reproduced. Learning how to make a new process work well may involve tacit knowledge and a developing organisational culture that is not easily transferred to a different organisation. "It is sometimes difficult to transfer innovative practices [in the social services] as they arise at micro-level and under particular and given local conditions" (Laino & Sütó, 2013, p. 7). Innovation that depends on scale and complementary investments in technology to drive the benefits is likely to be even more difficult to copy (APC, 2007).

Some of the policies that are used to stimulate innovation in the private sector could also be used in social services. The government could, for instance, give grants to organisations, offer prizes or award contracts for new ways of developing and delivering social services.

Two recent and interesting examples of this approach are:

- the Ministry of Health and Treasury's current process to elicit ideas for a social impact bond (Chapter 3); and
- the Treasury's announcement in October 2014 that it was seeking ideas on how to improve outcomes for vulnerable families, children and communities (Hickey, 2014).

Organisations commissioning social services could also encourage more collaboration between universities and social services providers. For instance, the Centre for Evaluation and Monitoring at the University of Canterbury has worked with New Zealand schools since 1999 in using value-added modelling to measure and monitor pupil progress, identify students at risk of under achievement, and set learning targets (Boustead, 2012).

Barnardos (sub. 12, p. 16) propose a system where NFPs are free to develop new ideas with their own resources and, if successful, this is rewarded by the government providing stable long-term funding for the programme. This mirrors the use of patents that reward innovators with an assured market for a number of years. Barnardos proposes that costs of funding new innovative programmes would be met by decommissioning less successful programmes.

While innovation in the social services generally does not lend itself to formal IPR such as patents or copyright, programmes are being developed that are then licenced to other providers. These programmes are usually evidence-based complex interventions, targeted to very specific client groups. Highly skilled staff implement the programmes. Successful implementation relies on close attention to staff development and programme fidelity. Examples include multi-systemic therapy and family functional therapy targeted at chronically violent youth offenders. Developers of assessment tools also sometimes make them available under licence, at least in some jurisdictions (see eg, NFPN, 2015).

Some submitters argued that contestable contracting makes it hard for providers to protect their innovative ideas from use by competitors (Box 7.4).

Box 7.4 **Intellectual property and contestable contracts: who gets the benefits?**

Barnardos consulted closely with Child, Youth and Family to develop a tool for their social workers to use when working with families. The development of the tool and associated training and ongoing support in its use represented "a significant investment in our intellectual property and social work practice capability …[which] has the potential to give us a competitive advantage when we go through the RFP process" (sub. 12, p. 9).

So Barnardos faced a conflict when asked to share the tool with another organisation similar to them. In practice, Barnardos "share what we know as openly as possible …There is very little incentive (other than our commitment to our principles) for organisations to work to improve outcomes for children and families by sharing our learnings, our ways of working, our expert staff, and our systems and processes" (sub. 12, p. 9).

Other submitters also argued that contestability harms innovation:

> Another problem Carers NZ has seen with contestability is that it undermines the opportunities and incentives for "social enterprises" to innovate. Carers NZ has faced situations where it has presented innovative ideas to government agencies, only to have them share the ideas with potential competitors through a contestable procurement process. Carers NZ has had to compete to implement its own ideas. (Carers New Zealand, sub. 71, p. 8)
>
> Contestability can also erode collaboration and innovation that has been developed over a number of years. Providers may be unwilling to share in professional conversations about practice because they might need to rely on this to win a tender process. (Workbridge, sub. 102, p. 14)

> The Community and Voluntary Sector, on the other hand, is hard pressed to innovate. [Reasons include] … Innovative ideas in a competitive funding world, can lead to others 'stealing' that innovation. (Community Networks Aotearoa, sub. 31, p. 7)

On the other hand, the New Zealand Council of Christian Social Services argued that learning from evaluations of programmes should be widely disseminated and not treated as intellectual property belonging to a particular provider:

> Quality independent evaluation of programmes at regional and national levels should be utilised to demonstrate the effectiveness of programmes and of service providers. Learnings from these evaluations should be widely shared – not seen as intellectual property to be used to derive profit for a company. (sub. 35, p. 10)

NFPs operating in contestable markets often have a strong sense of mission and an intrinsic motivation to share the benefits of their innovation (Box 7.4). Some engage in joint ventures to share and get more leverage from innovation. Youth Horizons, for instance, has formed a joint venture with the Otangarei Trust and Ngāpuhi Iwi Social Services. Te Pae Aronga Taitamariki, the joint venture, provides a basis to share clinical, cultural and local expertise, knowledge and experience to deliver intensive services for youth in Northland (Youth Horizons, 2015).

Yet it is in the funder's long-term interests both to ensure that providers are rewarded for their innovative activity (so increasing the rate of innovation) and that successful innovation spreads to other providers. Government agencies should observe normal commercial good practice and respect the confidentiality of innovative ideas that they receive from providers in the course of tendering contracts or otherwise. Where they wish to spread the innovative ideas, they should negotiate for the rights to do so.

R7.4 Government social services commissioning agencies should respect the confidentiality of innovative ideas that providers submit as part of a tender or otherwise. Where government agencies wish to spread an innovation that a third party creates, they should negotiate for the rights to do so.

Service models that provide for competition in the market rather than competition for the market (Chapter 6) are likely to alleviate some of the concerns about innovators losing the benefits of their innovation. Innovators would not then need to worry about the funding agency appropriating their ideas. They can appeal directly to service users to test the success of, and get the benefits of their innovation. If innovators choose, they can work collaboratively with competitors under arrangements that satisfy each party, just as happens in other goods and services markets.

In sum, innovation is a key to improved effectiveness in social services. The government should develop policies to increase the rate of innovation in social services by rewarding innovation and removing barriers, while promoting the spread of innovation through the social services system.

Q7.1 How can government agencies manage contracting processes in a way that best leads to the development and dissemination of innovative approaches to service design and delivery?

R7.5 Government agencies should explore a variety of additional initiatives to encourage innovation in the social services. These could include innovation funds, prizes and in-house innovation labs.

7.4 Building a better evidence base

Service users, providers and organisations that commission social services have a range of information sources to support learning about what works and for whom and which groups should be the focus of new initiatives.

Youth Horizons submitted:

> As governments increasingly seek to obtain the best value for their populations and look for the evidence to guide this work, various approaches have evolved to provide helpful evidence. There is a wide range of relevant evidence including:
>
> - broad population-wide prevalence, demographic and other census information,
> - systematically collected longitudinal research,
> - randomised controlled trials, where confounding variables are relatively well understood and controlled,
> - sustained programmes of work to develop evidence based interventions for particular applications,
> - implementation science which examines how to replicate and then roll out these evidence-based interventions and practices on a larger scale,
> - well-coordinated independent evaluations of programmes or initiatives,
> - service providers' own evaluation of their programmes to demonstrate value added and inform quality improvement ,
> - narratives and informal client feedback. (sub. 67, p. 2)

Different methods are needed to gather and share information from these sources, of which formal evaluation is only one. Yet the social services system currently places a lot of weight on formal evaluation as a means to support learning. This is tied to a "plan, do, review" approach to service development that devotes significant time to problem definition, information gathering, option identification, policy design and risk identification. Implementation then follows the template, without further adjustment until the service is reviewed. Even so, traditional evaluation is often weak in practice – especially across the large number of smaller programmes and providers of social services.

In contrast, a "learn-build-learn-build" process emphasises building the evidence base as part of a process of continuous learning and adaptation (section 7.1). Private sector service firms (such as retail chains and banks) use information systems that provide constant feedback about how the business is performing. This process allows continual adjustment to prices, marketing and logistics (NZPC, 2014a).

Some approaches in social services similarly recognise that much of learning comes from on-the-ground experience and that this knowledge can be captured in real time and spread. One example is the Youth Service that MSD purchases from non-government organisations. MSD monitors the uptake of the programme weekly, and provider performance is monitored closely (on a monthly basis at a minimum). Generally, however, these real-time approaches to performance monitoring currently operate at small scale (compared to the use of information in other service industries) and have limited impact overall.[53]

While recognising the importance of a wide range of information sources for learning, this section mostly discusses evaluation in social services and its limitations. Chapter 8 looks at how smarter data collection and analytics can address the limitations in evaluation and accelerate learning throughout the social system.

The role of evaluation in a learning system

Evaluation as broadly conceived is central to a system that learns.

> Evaluation is widely considered to be an integral part of public sector management. The promise of evaluation is that it will contribute meaningfully to the decisions made and the actions taken around

[53] The Australian National Disability Insurance Scheme is a large-scale social services reform that is taking a learn-build-learn-build approach (section 7.1 and Chapter 3).

> policies, programmes, projects and operations. Evaluation is, at one level, viewed as a taken for granted 'good', i.e. as something that will contribute to better government, better policy, better delivery etc. It is considered an important part of ensuring government accountability, trust and credibility. Underpinning the public sector management frameworks of many developed countries is an assumption that public agencies will focus on results, and use empirical evaluative information to adjust activities and revise policy settings. (Aotearoa New Zealand Evaluation Association, sub. 37 p. 2)

Service providers can use evaluation to develop and improve programmes and to demonstrate programme effectiveness. Commissioning organisations and funders can use evaluation to identify effective programmes or programme elements. Information from evaluations is more valuable to providers and others if they can use that information to compare effectiveness and cost-effectiveness across a range of interventions and programmes (section 7.3).

> Evaluation can and should take place across the lifecycle of a program, from design and piloting through to implementation and ongoing mainstream delivery … It has an equally important role to play in testing the impact of new policies and testing whether existing mainstream programs are continuing to deliver outcomes effectively… Different types of evaluation provide different information and support different decisions. That's why it is important to plan upfront what questions need to be answered, how they will be answered, and by when. (NSW Government, 2014, p. 6)

The NSW Government has developed a set of good evaluation practice principles to guide government agencies commissioning services (Box 7.5).

Box 7.5 **Good evaluation practice principles**

The NSW Government has set out good evaluation practice principles:

- Evaluations should be built into program design…
- Evaluations should be methodologically rigorous, with appropriate scale and design … scaled to each program in accordance with the program's size, risk and significance…
- Evaluations should be conducted with the right mix of expertise and independence ... the person or agency conducting the evaluation should be independent from program managers…
- Evaluations should be timely to support and influence decision making … planning of evaluations should commence before implementation with the selection of methodologies and collection of baseline data…Summative evaluations should not be undertaken too early, in recognition of the time it can take to accrue sufficient evidence and produce measurable outcomes.
- Evaluation processes should be transparent and open to scrutiny.

Source: NSW Government, 2014, p. 9.

Superu (the Social Policy Evaluation and Research Unit) has a role to "increase the use of evidence by people across the social sector so that they can make better decisions – about funding, policies or services – to improve the lives of New Zealanders, New Zealand's communities, families and whānau" (Superu, 2015).[54]

R7.6 Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. When the Government funds social services evaluations, it should require adherence to those principles.

Quantitative and qualitative evaluation and capturing the voice of service users

Evaluation can be quantitative, qualitative or both. Measurement of impact and cost effectiveness and comparison of programmes at a population level usually requires quantitative data. Yet qualitative data is

[54] The Families Commission operates under the name Social Policy Evaluation and Research Unit (Superu).

often important for understanding the relationships between practice and outcomes, developing hypotheses for further testing, and for identifying issues with programme implementation. The Impact Collective argues that qualitative data is needed to understand change with wicked or complex problems – for instance to identify what is or is not working with current services, learning from service implementation trials, and obtaining service-user input into the design, review and evaluation of services (sub. 130, pp. 23, 26).

A number of submissions stressed the importance of getting service user input into the evaluation of provider performance:

> Ensuring a strong voice of the service user in monitoring and evaluation of provider (government and non-government) performance is important. Empowering citizens to have a voice in these processes is important. (Social Sector Trial Leads, sub. 129, p. 16)

> Auckland City Mission's 'Family 100 Research Project' is an example of a client-centric project providing findings on a range of issues such as housing, debt, food insecurity, health, education and employment. Although this is not an evaluation with a control group or randomised control trial, it does provide insights on how multiple issues can work in concert to prevent people from moving forward. (Superu, sub. 82, p. 5)

> Client feedback is the most effective way of measuring the effectiveness of a service. If the client reports that the counsellor or budget advisor have helped them achieve their goals or improved their life then that is a positive outcome. (The Raglan House, sub. 24, p. 8)

Auckland North Community and Development went further and argued that outcome goals and measures for evaluation should be developed locally:

> Successful evaluation recognises differences between people, places and programmes. The requirement of differentiation raises doubts over the efficacy of a single common outcome framework such as RBA [Results Based Accountability] promoted by the current government. Outcome goals and measures should be developed and established where the delivery takes place. It should be based on effectiveness of service delivery or a determinant of programme shortcomings as the basis for improvements and not just as a reporting tool. Reporting with this framework can create considerable work for the provider without the benefit of activating any real learning and improvements in service delivery. (sub. 22, p. 3)

Evaluation weaknesses in New Zealand

Good evaluation is well embedded in some parts of the broader social services. Pharmac in health and the ERO in education carry out structured, systematic evaluations of service effectiveness that guide continuing refinement of services.

A systematic, structured approach is less apparent in other parts of the social services. While the contribution of good evaluation to an effective system of social services is widely recognised, the government and its agencies sometimes have strong incentives to suppress results that show a programme is performing poorly. New initiatives are often associated with a departmental or political brand, and a perception of poor performance puts that brand at risk. One senior official, in meeting the Commission, described a government agency's internal evaluation unit as a "bomb factory" because evaluations were late and found faults. In practice, even major programmes are often not effectively evaluated, whether because evaluation was not planned as part of policy development or the programme's objectives and intervention logic were not well specified.

For instance, according to CCS Disability Action:

> [t]here are … no key performance indicators, or targets, for Ministry of Health or Ministry of Social Development disability services, despite the Ministry spending over one billion dollars a year on services ... There has been a lack of robust evaluation and critical analysis of reforms.

> There has been little attempt to objectively compare the effectiveness or efficiency of piloted services to existing services, which provide a similar role. System wide reform needs to be based on reliable data, including data that measures actual impacts by comparing pilots with existing services ... (sub. 65, p. 5)

The Impact Collective commented:

> There are virtually no routine outcome monitoring, evaluation or audit activities currently undertaken in the domestic violence and child abuse sector. Almost no new initiatives have been evaluated. (sub. 130, p. 22)

A recent Cabinet paper on youth mental health services noted:

> We lack information about whether services are efficient, cost effective or appropriate for the New Zealand context. There is insufficient information about programme effectiveness and particularly evidence about what works for Māori and Pacific people. We tend to focus on new interventions at the margin, rather than considering the appropriateness and efficacy of what is already in place. (Prime Minister, 2012)

To the extent that evaluations can adversely affect the payment they receive for services or the opportunity to receive future contracts, some NFP providers may also prefer weak or no evaluation.

Superu summed up the weaknesses in the evaluation of social services in New Zealand. These include:

- Inadequate consideration of research, evaluation and monitoring at the design and implementations stage [so that] … data collections systems are [not] put in place to allow effective evaluative activity;
- Funders are primarily interested in evaluating the success of their individual programmes, but when dealing with complex social issues 'a system-wide approach' is required to understand whether or not long term benefits are being realised…
- …evaluations are often limited in scope and/or conducted over a limited period of time. This means that information received from monitoring and evaluation activity tends to focus on inputs and outputs rather than long-term outcomes… (sub. 82, p. 4)

Current initiatives to address evaluation weaknesses in New Zealand

Initiatives are underway to address some of the weaknesses in social services evaluation in New Zealand.

MSD is promoting better evaluation of programmes that it funds as part of the Investing in Services for Outcomes (ISO) initiatives (now forming the Community Investment Strategy).[55] Working with Superu, this includes:

- identifying priority programmes to be evaluated and developing an evaluation schedule to cover the next three years;
- developing guidance for evaluators and providers on using evidence and evaluation; and
- developing a strategy for disseminating the results of evaluations.

MSD also provides guidelines, resources and expertise to support providers to use Results Based Accountability (RBA) (MSD, 2015b). RBA uses measures of the quantity, quality and impact of the work done to show how an individual agency or programme or system of services achieves client results/outcomes. The approach tailors accountability and measurement to the scale and sophistication of a provider, reducing unnecessary use of paper. The aim is to monitor and show how services contribute to improving population-level outcomes. Yet the Commission understands that RBA practice in New Zealand tends to be qualitative rather than quantitative and does not currently provide a consistent population-level picture of outcomes.

As part of the ISO strategy, Superu has set up:

> [a] new contestable fund which will involve NGO social service providers participating in external evaluations funded by Superu. The evaluations aim to understand how previously under-investigated and/or innovative services and practices achieve important outcomes for groups and in locations that

[55] ISO is a set of MSD initiatives designed to achieve better engagement with community service providers. This includes work on rationalising and consolidating decisions on funding across the Ministry, streamlining contracts and focusing them more on achieving long-term outcomes and support for providers to develop their capability and capacity (MSD, 2015a).

> are of high priority to the Ministry of Social Development. The evaluations are planned to begin in May 2015 and finish in May 2016. (sub. 82, p. 3)

The fund will provide $700 000 for between two and five evaluations in the initial year (Superu, 2015).

In addition, Superu is undertaking:

> [t]he development of evaluation standards in partnership with the Aotearoa New Zealand Evaluation Association (ANZEA). This set of standards aims to ensure that high quality and worthwhile evaluation is undertaken by policymakers, funders and providers. (sub. 82, p. 3)[56]

Nevertheless, even within the scope of the ISO initiative, a large number of smaller programmes will not be formally evaluated over the medium term. More generally, according to Superu, " …there is widespread recognition that social sector providers often do not have the capability to conduct robust outcomes-based evaluations" (sub. 82, p. 5).

Indeed, at a more fundamental level, many providers are not even recording basic data required for monitoring and evaluation:

> …information about who receives services and programmes is often limited and is collected by providers in an ad-hoc manner without any systematic method to capturing this data… Where there are data-capturing systems, they tend not to be consistent in what they record or how it is determined. (Social Sector Trial Leads, sub. 126, p. 23)

Funding for evaluation

Building evaluation capability and carrying out evaluations require resources:

> There are costs at multiple levels in relation to using data. There is client time taken to complete client measures (e.g. behaviour scales, questionnaires etc.). There is the cost of practitioner/evaluator time in gaining consent and collecting data, data entry costs, data analysis costs and the cost of skilful interpreting data to accurately inform service development. As data collection is not the focus of most practitioners, time and effort is required to promote an evaluation culture and checks to promote compliance with data collection.
>
> These costs need to be weighed up against the reliability, validity and meaningfulness of the data. That is, is the data "worth" the effort required to not only collect but interpret and use it… (Youth Horizons, sub. 67, pp. 5–6)

As discussed in section 7.3, many NFPs lack the capacity to raise funds for investment in capability development. Unsurprisingly, many submissions reported that providers find it hard to fund evaluation:

> …it must be emphasised that there is no additional funding for evaluating outcomes of the service purchased (say 1% of the contract price), despite the notice from MSD that Evaluation is going to be a contractual requirement. This squeezes margins even further under the contributory funding model. (Social Services Providers Aotearoa Inc., sub. 129, p. 9)
>
> Community organisations often do not have the time or expertise to effectively design and deliver a good evaluation model, and this is seldom funded (apart from MSD and its promotion of the RBA model in Auckland). (Auckland North Community and Development, sub. 22, p. 2)

Alcohol Health Watch referred to:

> [i]nadequate resourcing of evaluation – so we don't know/can't show a programme has worked or not. This can result in significant waste of resources and reinventing wheels. (sub. 84, p. 8)

WAVES Trust and Community Waitakere queried:

> …are community organisations adequately funded to do this [evaluation] work? Many contracts do not currently provide funding that is earmarked for evaluation. (sub. 83, p. 17)

Submitters proposed a range of approaches to funding evaluation (Box 7.6).

[56] ANZEA, with over 400 members, has also developed a set of "evaluation competencies" to guide evaluation practice, the commissioning of evaluations, and the development and employment and accountability of evaluators (Aotearoa New Zealand Evaluation Association, sub. 37, p. 3).

Box 7.6 **How should evaluation be funded?**

Submitters had a variety of views on how evaluation should be funded:

> If government wants greater accountability and evidence of service effectiveness to support funding decisions, it needs to fund research and evaluation when purchasing services, as current service provision rates do not enable NGOs to fund this themselves. (NGO Health and Disability Network, sub. 70, p. 14)
>
> [Funders should] …[r]equire a proportion of the cost of a service to be spent on evaluation in order to build the body of data required to do this a lot better. This may mean less activity in order to better understand quality, effectiveness and attributability. (Public Health Association of New Zealand, sub. 122, p. 11)
>
> It would be in government interests to build evaluation capacity in the sector in a way that is sustainable and not dependent on project funding and pilots as is currently the case. (Youth Horizons, sub. 67, p. 6)

Barnardos (sub. 12) proposed that when services are contracted to meet government objectives, the "costs and infrastructure requirements of measuring outcomes and outputs is factored into the price paid for services" (p. 14). But when services are funded mostly by the provider to meet provider objectives, then the government may, but would not be expected to, provide funding for evaluation.

F7.9 Many not-for-profit organisations find it difficult to fund evaluation on top of service delivery and, in any case, lack the capability for good evaluation.

F7.10 Decision makers in the social services system lack good timely information on what is working, for whom and through which service providers. This undermines the ability of the system to learn and adapt.

Limits to the standard evaluation model

The Commission considers that current initiatives led by MSD, Superu, ANZEA and others to develop a more systematic approach to evaluation of social services programmes and to improve the quality of evaluations are worth pursuing. Yet, in the standard evaluation model, there is a trade-off between good evaluation practice and cost and time. In practice many evaluations fall back on looking at a few outcomes, using small samples and no control or comparison groups. This means that making generalisations of the findings is difficult (Mansell, 2015). This suggests that the standard evaluation approach is best applied to larger programmes or experimental work that will likely lead on to larger-scale implementation.

F7.11 The standard programme-based approach to social services evaluation involves a trade-off between good evaluation practice, and cost and time. The standard evaluation approach may be best applied to larger programmes, or to experimental work that will likely lead on to larger-scale implementation.

The Commission considers that it is simply not feasible to extend the standard model of good evaluation on a programme-by-programme approach across the large numbers of small contracts and small providers with whom government agencies currently contract.

Further, extending good evaluation practice widely across small providers and programmes would not, by itself, provide all the capabilities needed to support learning across the social services system. In particular, there would still be a need to compare performance across the system to better identify, reward and spread superior performance, help average performers to identify ways to improve their performance, and assist the exit of unsatisfactory services. Comparisons of this sort require a consistent and coherent system-wide

collection and analysis of data, cost-effectively scaled to the size and sophistication of programmes being funded.

Real-time evaluation

One problem with the standard evaluation model is that considerable time often elapses before results are available to influence commissioning, contracting and operational decisions. Real-time evaluation aims to overcome this problem, and is widely used in private-sector service industries such as retail.

Real-time evaluation in social services has a few examples in New Zealand. For instance, the Department of Corrections submitted:

> The success of the original [Out of Gate] programme has led to it being extended to a more demanding subset of short serving prisoners. The real-time evaluation of the service has enabled the Department to expand the programme more rapidly than would have been possible if the expansion had been reliant on a post-trial evaluation. (sub. 21, p. 2)

MSD uses real-time data to regularly monitor when clients assigned to different services move out of the income support system. With changes to the Public Finance Act 1989, MSD has more flexibility to shift resources between services to respond to emerging trends.

Monitoring and evaluating a much wider range of social services in real time and responding to trends as they emerge would offer significant improvements in efficiency and effectiveness.

Using multiple data sources for evaluation

Currently, most social services evaluations rely on data collected for the purpose that, because of cost, cover a narrow range of variables. Yet some submissions commented on the value of a broad range of low-cost sources of information for operational and evaluative purposes:

> While conceptually everyone is clear that preventative work may well save both economic costs, and human costs, demonstrating this requires a broad approach to data, and a need to learn from many sources of information to assess whether benefits are realised over time. (Youth Horizons, sub. 67, p. 3)

> One way to reduce the burden of data collection and increase the number of service users that can be followed up, particularly over time, is to utilise interagency data, such as youth offending data pre, post and at follow up, police involvement, school enrolment and attendance and other key indicators. While there are promising moves towards making this kind of anonymised programme wide data available for evaluation, this has not yet been successful…

> The MSD Youth Service contracts for youth people not in education, employment or training on Youth Payment or Young Parent Payments are an example of a government Ministry working with service providers in this way, providing outcome data as part of the process of assessing the impact of the service. (Youth Horizons, sub. 67, pp. 5–6)

> The greatest potential though would be that these [IT] systems could potentially provide for the collection of aggregate data on a considerable range of issues and other variables not dissimilar to that collected in the health sector, and not previously available to the social services sector and its contracting partners. (Relationships Aotearoa, sub. 56, p. 9)

Multiple real-time data sources on particular clients will also allow more timely and accurate interventions. For instance, geospatial location data combined with wearable sensors (eg, measuring heart rate) and the ability to integrate this with medical records and communicate directly with doctors or emergency services promises to allow a range of new services that could save lives (and cost) (Mansell, 2015).

F7.12 The current approach to evaluation in the social services fails to make cost-effective use of the wide range of information being generated by daily interaction between users and services.

R7.7 Commissioning organisations and providers should monitor and evaluate in real time a much wider range of services than at present. This would enable commissioning organisations and providers to respond to trends as they emerge and offer significant improvements in efficiency and effectiveness

A new approach is needed to monitoring and evaluation in the social services

The Commission considers that a different approach to building the evidence base across a wide range of providers and contracts is needed. This should be designed to support a learning system that allows a much more cost-effective and integrated approach to monitoring and evaluation than at present, and one that is less onerous for providers.

At the same time, social service agencies should promote a culture of learning that welcomes evaluation and has the maturity to take results showing service faults as an opportunity to improve.

Wide access to, and use of, data and analytics offer the attractive prospect of both stimulating a diversity of approaches and providing a practical and powerful technique for evaluating their effects in terms of improved outcomes (Chapter 8).

8 Leveraging data and analytics

Key points

- Developments in data technology and analytics have transformed many service industries. The same developments have the potential to support new business models in social services that will bring substantial improvements in effectiveness.
- A system that learns needs timely client-centred data and analytics to be available to decision makers at all points in the system. The data and analysis needs to match the different types of decisions being made by commissioners, purchasers, providers and clients of social services.
- Cost-effectively collecting, sharing and analysing data across the social-services system will greatly increase its capacity to design and commission effective services, and to target resources to where they have the greatest effect on improving outcomes.
- The New Zealand Data Futures Forum (NZDFF) has recommended a way forward to realise the potential benefits and mitigate the risks of sharing, linking and using data.
- The NZDFF recommended that getting value from sharing, linking and using data should follow the principles of inclusion, trust and control. *Inclusion* is raising public awareness and capability in finding, using and understanding data and the data environment. *Trust* is focused on building trust in the sharing of data. *Control* is giving individuals more control over the use of their personal data.
- The Government, and social services providers and clients, should use the NZDFF recommendations as an opportunity to explore innovative approaches to addressing social problems and enhancing social outcomes.
- As a first step, government social services agencies need to make progress on sharing their operational data (with appropriate protections). Better use of linked cross-agency data could increase the scope and accuracy of the Government's investment approach to targeting social services as well as supporting better-integrated tailored services for clients.
- Government social services agencies and social services providers should capture information on their clients and services in a consistent way. Doing so would allow commissioners, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance. This information should be used to continuously improve how commissioners, providers and clients of social services make decisions.
- The Social Sector Board has commissioned work to develop a plan for implementing social sector data integration, including common standards. This work should include the design of institutions and processes to develop a comprehensive, wide-access, client-centred data infrastructure accessible to commissioners, providers, clients and researchers of social services.
- Sharing government-held data with third party providers would support innovative approaches to solving social problems. Where individuals give consent, government agencies should permit access to identifiable personal data so as to support the provision of innovative services.

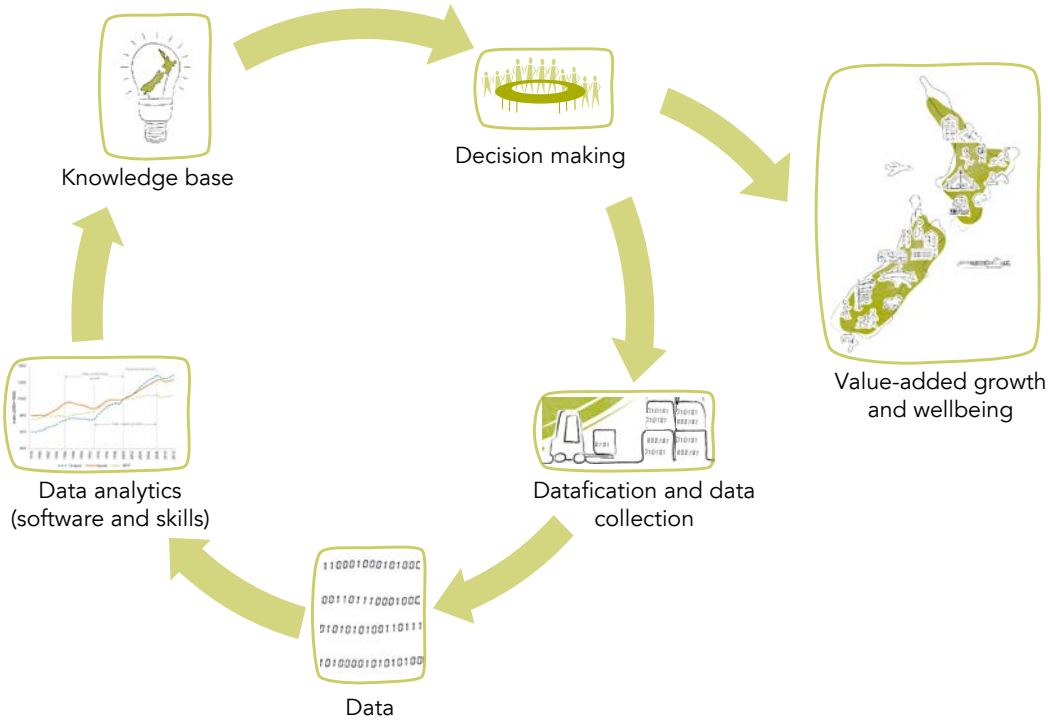
This chapter highlights the opportunities to use data and analytics to create a learning system that increases the effectiveness of social services. A client-centred data infrastructure and analytics will support a range of decentralised service models discussed in previous chapters and provide better information to support decisions made by the clients, providers and commissioners of social services.

8.1 Data and analytics can transform the social services landscape

Data and analytics to support a system that learns

Information flows are central to a system that learns (Chapter 7). Broadly, a system that learns needs timely information on which clients are accessing which services, who is providing those services and with what effect. The broader and deeper the scope of the information, the more powerful will be the learning opportunities. The information needs to be collected, configured and analysed in a continuous process that creates value through learning feedback loops (Figure 8.1).

Figure 8.1 Data value cycle



Source: OECD, 2014; Productivity Commission.

A client-centred data infrastructure and analytic capability will be the foundation for providing information for system-wide learning. This infrastructure will allow data users to follow the pathways of social services clients in detail and over time as they access or interact with different services. Data users will be able to use information at very different scales (from client-specific assessments to system-wide analysis), and for operational, evaluative and commissioning purposes. A client-centred data infrastructure should be able to support the full range of commissioning approaches and service delivery models discussed in Chapters 5 and 6 and meet a wide range of needs.

A better data infrastructure and data analytics will help address a number of current issues in the design and provision of social services.

- By providing better information on the quality and effectiveness of services, clients will be able to make better-informed service choices.
- Better information will provide a more holistic picture of client circumstances and of available services and enable the assembly of a more effective mix of services to meet client needs. This picture may focus on individual clients or on groups of clients with similar characteristics and prospects.
- Better information systems will enable providers to capture client-centred data once for operational, monitoring, evaluation and audit purposes.

- Better information will support more effective operations by, for instance, facilitating client interactions with service providers. It will also help the service provider to customise services to better meet the preferences and needs of client.
- Better information will allow the performance of services to be measured as client-specific value-added, not just as averages across the client cohort. Commissioners of social services will be able to match service levels to client characteristics and set prices accordingly. This will help manage *cherry-picking* and *parking* (providers focusing on the clients for whom it is easy to achieve desired outcomes while providing no, or a low level of, service to others) (Chapter 6; Appendix F).
- Better information will greatly reduce the cost and increase the power of service evaluations (using economies of scope and scale in the use of data).
- Better information will enable evaluations to be conducted in real time and so promote continual adaptation in services to better meet client needs. It will enable providers to compare their performance with other providers of similar services, and so help them identify the scope for improvement.
- Better information will help identify the impacts of services as a basis for payment of providers, and so leave more room for providers to experiment and innovate in pursuit of improved performance.
- Better information will enable commissioning organisations to set prices for services at a level that covers the economic costs of provision (Chapter 6).
- Using suitably anonymised data, better information will guide the identification of effective interventions and the deployment of resources across the social services system.

A comprehensive, wide-access, client-centred data infrastructure could have further beneficial effects by:

- stimulating new and existing providers to develop innovative ways to add value;
- making it difficult for providers and other decision makers to justify services that do not work, or fall short of the best return on investment (ROI) – an essential component of effective selection pressure;
- leading to improved measurement of outcomes, making it more possible for agencies to contract with providers for outcomes (Chapter 12); and
- enhancing the ability of providers to match the services they offer to the types of clients that could most benefit from them.

On the final point above, a comprehensive, wide-access, client-centred data infrastructure could help providers reach these clients and establish trust. Relatedly, it could help solve the challenge of service integration by revealing the combination of services that work best for different client types (Chapter 10).

F8.1 Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design, commission and provide effective services. Better data and data analysis will help target resources to have a greater impact on improving outcomes.

A social services data infrastructure will build over time in terms of client histories and the scope of social services included. This will continue to increase understanding about the effects of different services and different providers on outcomes, both generally and for particular clients.

The power of data technology and analytics

Modern data technology and analytics have greatly increased the capability to inform decisions being made by clients, providers, purchasers and commissioners of social services.

Innovations over the last 40 years include:

- high-volume parallel processing of huge datasets, that allows large numbers of users to access data in real time;
- vastly increased capacity to analyse the content of large datasets for a wide range of uses;
- cheap and ubiquitous electronic networks that enable data users to collaborate, communicate, coordinate or mobilise at scale globally on matters of mutual interest; and
- devices that capture personal data in real time – for instance through mobile phones, watches and wearable fitness monitors.

> Taken together, these innovations provide opportunities to build new kinds of knowledge-based tools and to adopt different kinds of business models … (Mansell, 2015, p. 24).

Services in many parts of the economy have used these technologies for decades to continually transform themselves, though New Zealand lags behind international leaders (NZPC, 2014a). The retail industry, for instance, has used information and communications technology (ICT) to track inventories and supply in real time, integrate supply chains across and within borders, set prices to respond to changing demand, and target marketing to customer segments. Online shopping has grown rapidly over the last decade. Parallel developments have been transforming the banking, finance, freight and air transport industries.

In New Zealand, Xero has developed a cloud-based accounting system for small- to medium-sized businesses that is used internationally. The system uploads banking transactions automatically for use by accountants and employees and submits tax returns electronically with the consent of the service user. More than 300 third-party providers of related services are using the Xero platform to build and introduce innovative applications. These innovations are reviewed by the community of 300 000 users of Xero – a guide to their usefulness (Mansell, 2015).

New Zealand examples of data-driven innovation in the social services

Some of these capabilities are already in place in some parts of the social services system. For instance, the Ministry of Social Development (MSD) has used its in-house benefits dynamics database as the backbone of its Investment Approach (Chapters 3 and 9; Appendix B). MSD is linking other data sources, including information from Child, Youth and Family service use, to increase the power of its analytics. The database allows real-time tracking of service performance as input into investment decisions. This has enabled MSD to identify and successfully channel services to previously under-served client groups, including youth and sole parents. Private sector services have been using similar client segmentation, testing and targeting of services for decades.

While MSD uses its own data systems for operational purposes and as a key tool to enable its Investment Approach, Statistics New Zealand has been implementing the Integrated Data Infrastructure (IDI) for research and evaluation purposes. The IDI contains de-identified longitudinal individual-level administrative data from education, inland revenue, justice, corrections, Accident Compensation Corporation (injury data), MSD (benefit and student loans), and the Ministry of Business, Innovation and Employment (immigration and tenancy bonds), as well as data from Statistics New Zealand surveys. The IDI is complemented by a central agency Analytic and Insights team located at the Treasury. The team's role is to undertake and promote research and evaluation using IDI to inform the Government's resourcing decisions and commissioning of services. Statistics New Zealand and the Ministry of Health are piloting the addition of health data to the IDI, initially for the purposes of the Treasury carrying out research.

The IDI is not set up for operational purposes; it takes time to analyse data and feed results back to the commissioners of services. Other social services systems are using shared data operationally. For instance, the National Health IT Board is leading the development of a comprehensive distributed-data infrastructure in the health sector (Box 8.1).

Box 8.1 **National IT Health Board**

The Government established the National IT Health Board in 2009 to provide strategic leadership on information systems across the sector. Since its inception, the Board has carried forward a range of complementary initiatives, including:

- building the capacity for patients and their treatment providers to have a core set of personal health information available electronically, regardless of the setting as they access health services;
- setting up the capacity for *patient portals* that give patients electronic access to their personal health information;
- rolling out a national electronic prescription services;
- developing networking and interconnectivity standards that allow information exchange between existing private health electronic networks (such as those used in general practice);
- developing a common architecture for national and regional information systems and infrastructure;
- establishing the ConnectedHealth brand as an umbrella term for the IT (information technology) environments that securely share information;
- harnessing clinical leadership in the development of health IT initiatives; and
- supporting the New Zealand Health IT Cluster, an alliance of software and solution developers, consultants, health policymakers, health funders, infrastructure companies, healthcare providers and academic institutions (National Health IT Board, 2015).

The National IT Health Board has taken a "guided market approach" to data-driven innovation that includes:

> co-production and co-design of health care information solutions or eHealth solutions by consumers and health care providers [and] … direct access for health consumers, including the development of patient portal and ultimately consumer apps that use all or part of their health information record. (NZDFF, 2014, p. 35)

According to Ian McCrae, chief executive officer of health IT company Orion Health, one of the key advantages that New Zealand gained in innovation in health IT was the launch of the National Health Index number (the unique patient identifier) in the early 1990s (Riley, 2014).

Some non-government social services providers are also exploring the possibilities of client-friendly, data-driven innovation. Auckland City Mission told the Commission that organisations such as MSD should consider using smart phone applications similar to banking apps. Clients would not then need to visit agencies and tell their stories time and time again. This way clients would be in control of their data and could give consent as appropriate. Auckland City Mission found that clients will almost always give consent to sharing their data. Yet the National Beneficiaries Advisory Group told the Commission that people outside the main cities and older people were less likely to use smart phones or the internet to interact with providers and government agencies. Over time, familiarity with digital technology is likely to spread more widely as costs fall and use becomes the norm.

Inquiry participants drew the Commission's attention to other examples of data-driven innovation:

> The RealTime Feedback project being run by the Health and Disability Commission is an example of using technology to obtain data (in this case on client satisfaction) in a way that is engaging for clients, automates data entry and draws on centralised skills in analysing and feeding back data in real time. (Youth Horizons, sub. 67, p. 8)

> …RA [Relationships Aotearoa] has invested heavily in the development of a comprehensive client management system which can not only provide a comprehensive data set for all RA clients seen, but has the capability of hosting a number of other providers who do not have the infrastructure to build such a system. (Relationships Aotearoa, sub. 56, p. 9)

The social services have been slow to use data and analytics to innovate

While examples of data-driven innovation in the social services exist, in general, the social services have been slower than many other service industries in taking up the opportunities. Tens of thousands of transactions take place daily between social services clients and providers, each generating information that may or may not be recorded electronically. Yet OECD (2014) notes that while industries that use data and analytics intensively experience a productivity gain in the order of 5% to 10%, industries in the public sector, healthcare, and science and education have made relatively weak use of the opportunities.

> These sectors employ the largest share of occupations which perform many tasks related to the collection and analysis of information and which are becoming increasingly data-intensive. However these tasks are also still performed at a relative low level of computerisation. The targeted deployment of data analytics could thus boost efficiency gains even more in these sectors. (p. 19)

Consistent with this judgement, the Social Sector Trial Leads submitted: "Where there are data-capturing systems, they tend not to be consistent in what they record …" (sub. 126, p. 23). Even where information is adequately captured, data infrastructure and analytics mostly do not match the sophistication and innovative power of those used in other service industries.

> The social services system is vast and there is currently no comprehensive knowledge base from which learning is kept. Agencies all have knowledge and learnings as do learning institutions and service providers but this knowledge is often vested in units and people in fragmented ways and is not consistently applied or shared. (Social Sector Trials Leads, sub. 126, p. 24)

Health services have relatively well-developed data and analytic systems compared to other social services (NZDFF, 2014). For instance, general practitioners can analyse data to determine treatment needs, access patient histories, make patient referrals and receive and analyse the results of tests and specialist investigations electronically (National Health IT Board, 2015). Yet, according to the Home and Community Health Association, community health lags behind in the use of data and analytics:

> a) There is much opportunity for improving efficiency and effectiveness for organisations and clients through further use of technology. Technological advancements include rostering and client management, use of cellphone and app technology for support workers, further use of GPS [global positioning system], use of remote client health monitoring and use of medical alarms.
>
> b) We need greater connectivity around New Zealand to allow community nurses to link and input, no matter where they are, to shared records and other centralized data stores.
>
> c) Many of our providers simply don't have the capacity within the contract price to develop their technology.
>
> d) In some instances secondary care technology is running behind community services technology and its incompatibility frustrates community innovation. (sub. 114, p. 14)

Similarly, the Wise Group, which specialises in community-based mental health services, submitted:

> There is an urgent need to identify a subset of information about an individual client than can be shared, the development of a protocol about how that information should be managed and the development of a central mechanism to manage the sharing of information. (sub. 41, p. 4)

Alliance Health Trust Plus (AH+), a public health organisation that, among other roles, commissions health services for Pacific peoples, notes that "it is often difficult to capture the extent to which our providers provide additional support to families" (sub. 119, p. 10). AH+ argues:

> Investment in IT solutions that are 'user friendly' for frontline staff that provide up-to-date data collection and timely analysis is essential for guiding the decisions made by commissioning agencies. It also allows providers to make evidence based judgements about their models of care and informs business planning processes (eg: number of FTEs required). (sub. 119, p. 3)

Even so, health sector community providers are probably more aware than other community social services providers of the potential use of data analytics, because other parts of the health system have relatively better developed data infrastructure.

Schiff et al. (forthcoming) estimated that, in 2014, data-driven innovation generated $2.4 billion of value in the New Zealand economy. Of this, $260 million was attributable to health, education and social services industries. The proportion of gross value added attributable to data-driven innovation in these industries was substantially below the proportion for many other service industries and lower than across the whole economy.

F8.2 Social services have lagged behind many other service industries in adopting data-driven innovation.

Reasons for slow adoption of data-driven innovation in the social services

One reason for late adoption of up-to-date data technology and analytics is the small size and not-for-profit (NFP) form of many social services providers. As a result they find it difficult to fund the investments required, or to acquire the skills to use them:

> Significant barriers to the use of information technology and data include the cost of developing and provision of solutions and the bespoke nature of IT tools often limiting the application and consistency of the use of these tools. This also limits the quality and depth of data available to learn from.
>
> There is an IT knowledge deficit among many NGOs which needs to be addressed to make the most of new technology to improve efficiency and effectiveness. This can be expensive for NGOs so finding ways of sharing information and systems that is supported by funders is important. (Social Sector Trials, sub. 126, p. 19)
>
> In general, community organisations struggle to access the funding to build adequate and responsive client management systems, websites and reporting systems that will allow them to deliver the more professional, visible and accountable social services that government agencies are now seeking. (Palmerston North Community Services Council, sub. 125, p. 11)

Workbridge submitted: "Government agencies need to be aware that community organisations have limited resources to dedicate to IT systems for the purposes of data collection, and that introducing new systems will require supporting infrastructure, training and implementation" (sub. 102, p. 15).

A more fundamental reason for slow adoption of new technology is that the collective benefits of a comprehensive client-centred data infrastructure and analytical capability are far greater than the sum of benefits that would be gained by each provider pursuing their own solution (Mansell, 2015). In many private sector service industries this problem has been ameliorated by successful adopters of new technology growing in scale at the expense of laggards (NZPC, 2014a). Successful NFP social services providers, because of capital constraints, have much less scope to grow in size through increasing their share of service provision or by merging or taking over other providers (Appendix F).

Historically, the collection of operational data within service lines has created strong barriers to sharing client-centred data across the social services. In many cases, providers and commissioning organisations have found it easier to accept the limitations of current data-sharing practices, rather than work to realise the benefits of greater data sharing.

A client-centred data infrastructure covering many dispersed social services providers requires a collective solution to establishing standards for data sharing as well as meeting the development and set-up costs. The Government has a strong interest in obtaining the benefits of a comprehensive client-centred data infrastructure, given its role as the main funder of social services and its interest in getting better outcomes for available resources (section 8.3).

F8.3 Establishing standards for data sharing and developing a client-centred data infrastructure covering many dispersed social services providers requires a collective solution across government agencies and social services organisations.

8.2 New Zealand Data Futures Forum proposals

Data-driven innovation in the social services requires the linking and sharing and use of personal information across the points at which clients engage with providers. This increases the potential for harmful use of personal information and so raises significant issues of privacy and trust.

New Zealand Data Futures Forum proposals

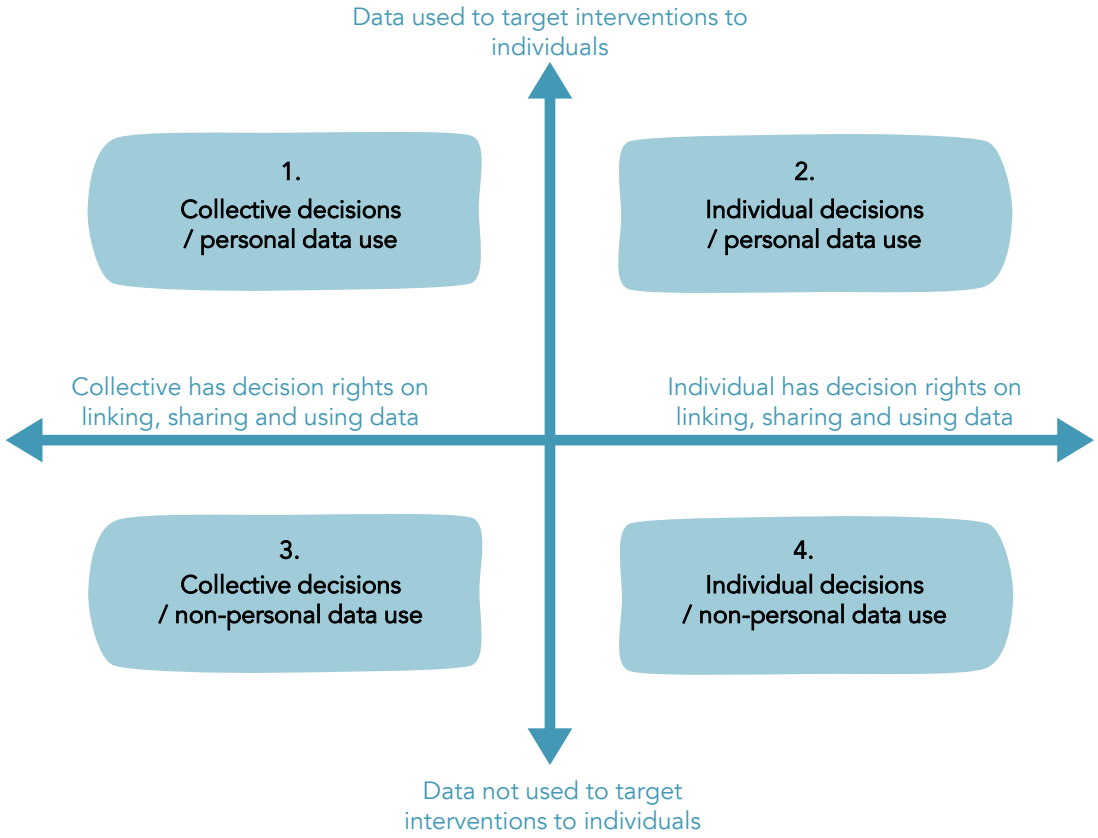
The Ministers of Finance and Statistics established the New Zealand Data Futures Forum (NZDFF) "to explore the potential benefits and risks for New Zealand of sharing, linking and using data" (NZDFF, 2014, p. 6).[57] In its report, NZDFF recommended:

- getting the rules of the game right by establishing an independent data council to act as guardians of the system and develop best-practice guidance, and by reviewing information legislation and so developing a robust data-use ecosystem;
- creating value by supporting catalyst projects that use data to innovate – "Trusted data use for the social sector" (p. 34) is one possible project recommended by NZDFF;
- establishing the foundations of a data-use ecosystem in which inclusion (by raising public awareness and capability in finding, using and understanding data and the data environment and its potential to transform lives), building trust and giving individuals control over the use of their personal data leads to innovative data sharing that builds value; and this, in turn drives further sharing of data.

NZDFF (2014, p. 17) argued for a "more collaborative, open and protected data future" and sketched out different scenarios to show how the principles of value, inclusion, trust and control could be applied in practice (Figure 8.2). Quadrants 3 and 4 cover the linking, sharing and use of de-identified data such as through the IDI. Quadrant 2 covers situations where an individual has the right to decide whether data that identifies them can be linked, shared and used to target interventions. Quadrant 1 covers situations where an agency or agencies have the right to decide whether data that identifies an individual can be linked, shared and used to target interventions to that individual. An example in quadrant 1 would be a hospital sharing data with a child protection agency to identify a child at risk of abuse and to target interventions to mitigate that risk.

[57] NZDFF members were a mix of public sector, private sector and academic leaders.

Figure 8.2 Different data-use scenarios for protecting privacy



Source: NZDFF, 2014; Productivity Commission.

Notes:

1. "Collective" could include, for instance, a government agency or agencies.

NZDFF (2014) argued that organisations should minimise the mandatory use of identifiable, personal data "…and, wherever, possible, move either to an arrangement where individuals have more say over the use of personal data or to one where data is anonymised or de-identified and used in a non-personal way" (p. 23). NZDFF further argued that government's social sector agencies "…need to do more to ensure that trust, inclusion and control underpin the use of social sector data. This sector needs to put strategies in place to ensure sustainable trusted and safe data use" (p. 34).

NZDFF also recommended that:

> … [t]he government agencies responsible for the delivery of social services (Justice, Health, Education, Social Development) should better coordinate their operational data-sharing to avoid duplication, improve safety and coordinate expertise….Agencies need to ensure that operational sharing is done with appropriate collective oversight and protections, such as by making use of the proposed data council, or find ways to enable greater individual control over the uses of data…
>
> The state sector's operational data should be made available in anonymous form via Statistics New Zealand's Integrated Data Infrastructure (IDI), or some other form of trusted, safe data-sharing mechanism, to improve transparency and the ability for researchers, communities, iwi and others to analyse data for themselves. (NZDFF, 2014, p. 34)

In addition, NZDFF argued that the Government should form partnerships with NFPs, academics and the private sector:

> …to link data to better understand social challenges, and this should be done in safe and trusted ways – not for individual targeting purposes, but to learn and measure needs and outcomes…[this] enables co-production of insights, and has the potential to increase accuracy and relevance, create reciprocal solutions, as well as support inclusion and trust. (NZDFF, 2014, p. 34)

NZDFF uses an example of how data sharing and the use of trusted community brokers could help provide better services for transient families and ameliorate adverse effects of transience on children's outcomes.

8.3 Building and using a better data infrastructure and analytic capability

This section looks at how a better data infrastructure and analytics can:

- contribute to more effective social services under different commissioning and service delivery approaches;
- expand the scope and increase the depth of an investment approach to resourcing social services; and
- cost-effectively capture data from many small and dispersed social services providers, helping to integrate them into a learning social services system in a transparent way.

The section briefly discusses governance arrangements; the issues of data security, privacy and trust; and the need for a collective solution to building a better data infrastructure.

Data and analytics for different commissioning approaches

Any future social services system is likely to involve a mix of high-level designs (Chapter 5) with some commissioning decisions being taken from the centre, some devolved to national or regional bodies, and some possibly assigned to social insurers. The future will also inevitably see a range of service models being used (Chapter 6). A client-centred data infrastructure needs to be flexible enough to allow the sharing, linking and use of data across different commissioning and service arrangements. The broader and deeper the scope of a data infrastructure, the more powerful and dynamic will be the innovation and learning that it supports.

Fortunately, fast-evolving modern electronic networking, information-sharing technology and analytics can be configured with great flexibility, through distributed systems supported by network connectivity standards (OECD, 2014). This is already being demonstrated by health information systems in New Zealand (Box 8.1). The Impact Collective has proposed such an approach for services to address domestic violence (Box 8.2). Modern data infrastructures make it more possible than in the past to combine devolved commissioning and client-centred delivery of social services with system-wide learning.

Box 8.2 **A nation-wide integrated data system to help address domestic violence**

The Impact Collective (sub. 130) proposes a nationwide integrated system involving multiple agencies, profession, communities and individuals working collaboratively together to address domestic violence and child abuse. The proposal is a response to the Impact Collective's assessment of the current situation:

> There is no consistent data collection or means of comparing what is happening between regions and no accurate data or ongoing mechanisms from which to measure change/outcomes. (p. 21).

As part of an integrated system, an integrated data system (with suitable protections) would enable cross-agency sharing and national analysis of information:

> The Integrated System would include local information and national information management systems underpinned by a set of national and local outcome indicators, data dictionary, standardised data sets, and system and service performance measures ie response times. It would enable cross-agency sharing of information throughout the Integrated System and to provide a continual flow of standardised data for performance and outcome monitoring. (p. 22)

The information collected would, with other evaluative activity, "enable a formalised continuous improvement process to be established…" (p. 22).

The Impact Collective also draws on the Glenn Inquiry's finding that information systems and databases do not lend themselves to cross-agency sharing of information (Glenn Inquiry, 2014). With multiple agencies involved in providing services and clients moving between locations, the ability to

share information is vital to providing effective and safe services. The Impact Collective proposes that, at the regional level, the information system would be used as a case management system for "multi-agency case management processe[s]" such as those run by the Family Violence Interagency Response System (p. 22).

The Impact Collective's proposal for an integrated data system is an example of backbone support that is a key condition for a successful collective impact approach to service integration (Chapter 3).

Depending on the model, the data infrastructure would help managers of social services markets to identify prices for different services that will allow efficient providers to cover their full economic costs, while achieving good outcomes for clients (Chapter 6). Intermediaries could also use the data to provide information on service quality and effectiveness to help clients to choose, where they have a choice of services.

Under more devolved arrangements, there is the possibility for a wide range of individuals (including clients and client advisors) and providers to have access either to anonymised data or, with permission, to private data (section 8.4). These arrangements would give the greatest scope for diversity of new ideas and innovation. Subject to protocols, third parties could access data to develop and offer services, measure their added value and compete for funding (Mansell, 2015).

In short, with the role of the centre limited to being a steward, a devolved social services system could yield better outcomes, with a common (transparent) view on how the sector is performing. A wide-access, client-centred, consent-based data infrastructure could become a key enabler of a collectively-owned, creative and adaptive social system.

Broadening and deepening the investment approach

MSD's Investment Approach has so far proved to be an effective way of deciding where best to target resources, which service designs to use and for which types of clients (Chapter 3 and Appendix B). Yet, as currently configured, it has a focus on a relatively narrowly defined outcome (the present value of future income support for current and recent clients) and a relatively narrow range of investment opportunities (the services MSD either provides in-house or contracts out).

Chapter 9 discusses the potential to expand the investment approach to cover both a wider range of outcomes and a wider range of investment opportunities. This expansion will require linking of individual client data held across different social services agencies, possibly including health, education, social development and justice. Data with wider scope will generate more accurate individual-level predictions, and lead to better targeting of services and better measurement of the value added by services. The NZDFF recommended increased data sharing among government social services agencies, while at the same time moving to a more consent-based approach (section 8.2).

The Social Sector Board[58] has commissioned work to develop a plan for implementing social sector data integration, including common standards (Cabinet Economic Growth and Infrastructure Committee, 2015).

R8.1 The Social Sector Board should initiate a project to coordinate client-level operational data sharing to increase the scope, power and accuracy of the Government's investment approach to targeting social services. The work should follow the principles recommended by the New Zealand Data Futures Forum..

Principles similar to those in the current investment approach could also be used under more devolved commissioning and decentralised delivery models for social services. Data analytics and a data

[58] The Social Sector Board consists of Chief Executives from the Ministries of Social Development, Education, Health, Corrections, Justice and Pacific Island Affairs, Te Puni Kōkiri, Statistics New Zealand, the New Zealand Police and Sport New Zealand.

infrastructure that collects the right data on services, on the clients who consume services and on the outcomes that eventuate for these clients hold the key to coupling the power of the investment approach to a much more devolved system. Properly set up, this approach could incentivise a diversity of new ideas and new approaches.

Commissioning organisations and providers could categorise clients into segments in different ways, based on a range of demographic and historical data for that individual (eg, whether the family or individual has been notified to Child, Youth and Family; health and education history; teen pregnancy; or interaction with the benefit system). This would enable probabilistic forecasts of outcomes (and some quantifiable elements of the outcomes, such as future fiscal liabilities) for many different types of clients.

Together, data of this type will help commissioning organisations and providers, either as a result of chance variation in services offered, or through a randomised controlled trial (RCT), to identify the impacts of services. Through links to provider data, the commissioning agency should be able to identify the cost of services at the client level, and so calculate an ROI. This in turn would allow commissioning organisations to shift resources towards the more effective services.

The Commission is attracted to the idea of organising and configuring at least some social services along these lines. The combination of clearly specified outcomes, much greater freedom and opportunity for providers to design and deliver their services, and providers supplying data on what services have been delivered to which types of client is a very powerful one. It would generate far greater diversity of ideas for new services and a means of testing their effectiveness. Diversity and learning what works are key components of a system that successfully learns to perform better in the face of complex and difficult challenges (Chapter 6).

F8.4 Modern data technology and analytics can support a devolved approach to guiding investments in social services, by collecting and analysing data on service costs and on client participation in services and subsequent outcomes.

Capturing data from many small and dispersed providers

Many small social services providers receive funding from one or more government social services agencies, in total producing a large number of small-scale contracts. It is rare for these services to be well-evaluated or even for basic data on client participation to be adequately captured (Chapter 7, section 8.1). A common social-sector-wide data infrastructure that allowed providers to supply data electronically at low cost and in standardised format on client participation and their programme costs would contribute to overcoming these shortfalls in the evidence base. Client data linked across social sector agencies would, in turn, allow easier identification of the outcomes of service participation and low-cost, real-time evaluation of service effectiveness:

> At the simplest level data collection could be improved by having a common IT system for service providers that captures basic data consistently and comprehensively. This would require investment into IT tool development. There would also need to be significant effort to improve data sharing arrangements and clear transparent guidance… Sharing systems and learning across providers is another way that they can be supported to undertake more robust evaluation and monitoring… (Social Sector Trials Leads, sub. 126, pp. 23–24)

The Cross Government Accreditation Working Group (CGAWG) was set up to coordinate the approaches of separate government agencies to accreditation of social services providers. One barrier to CGAWG's work is the lack of a common IT system across government social sector agencies (sub. 132). CGAWG (sub. 132, p. 3) notes that: "…the burden of compliance extends well beyond accreditation: specifically accreditation, monitoring and reporting require large amounts of provider resource (staff, time and tools)".

CGAWG argues for:

> One IT system across the social sector agencies for accreditation, funding, planning and contracting
>
> a) One New Zealand Business number for providers
>
> b) Sharing accreditation information
>
> c) A portal for accessing information
>
> [while noting as barriers]
>
> a) Cost of cross government IT solutions
>
> b) Privacy of data – needs to be carefully managed
>
> c) Trust – all parties need to trust the process and delivery
>
> d) Risk management. (sub. 132, p. 3)

While the CGAWG proposal does not extend to the collection and analysis of client-level data for the purposes of programme evaluation, some obvious synergies in the two purposes exist. Government social services agencies should investigate these synergies further.

R8.2 Government social services agencies and social services providers should capture information on their clients and services in a consistent way. Doing so would allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

Governance arrangements

The Government is currently considering the NZDFF proposal to establish an independent data council to act as guardian of a system of sharing and linking personal data in New Zealand. The council would advise government and data users and develop best practice guidance on data use. The Government has agreed that the principles of value, inclusion, trust and control, as set out by the NZDFF, should underpin approaches to data use in New Zealand (Cabinet Economic Growth and Infrastructure Committee, 2015). The principles involve recognising the economic and social value to be derived from the use of data, the inclusion of all parts of New Zealand society in the benefits, using data management to build trust and confidence in institutions and giving individuals more control over the use of their personal data (NZDFF, 2014). The Commission considers that the NZDFF principles provide a sound basis for the successful sharing of personal data across social services agencies.

R8.3 The Government should require government social services agencies engaged in sharing personal data to adhere to the four guiding principles of value, inclusion, trust and control proposed by the New Zealand Data Futures Forum.

The Commission considers that, in any exercise to link personal data across the social services, the Government should establish governance arrangements to give effect to the NZDFF principles. The governing body should be the custodian of a safe and high-trust environment in which personal data could be shared for operational, evaluative and commissioning purposes. It would also set data standards to facilitate efficient data sharing.

R8.4 The Government should set up governance arrangements that secure confidence and trust in the sharing of data across the social services, provide advice to government and data users on proposals for change, and develop best-practice guidance.

Data security, privacy and trust

The viability of an expanded model of data sharing across the social services following NZDFF principles depends on the willingness of often vulnerable clients to consent to sharing their personal data. Seeing and getting value from sharing data is one of the key principles that will encourage client consent (NZDFF, 2014). This approach is already working in areas such as accounting software (Xero) and customer-managed relationships (MyWave) (NZDFF, 2014). There are many international examples (see Mansell, 2015).

Under the NZDFF proposals, clients and citizens would, to the extent possible, control the use of their personal data. As far as possible, government agencies, other corporate entities and individuals would only have access to personal data by fully-informed consent, and then only for agreed purposes and in an agreed form. Researchers and analysts could use de-identified data without the consent of individuals, as is currently the case with data in the IDI.

There will clearly always be some areas of social services, such as child protection, policing and corrections, where it is not always appropriate to seek consent to the sharing of personal data. Social services agencies will need to develop agreed protocols to govern the sharing of such data.

Some providers have told the Commission of their frustration that some government agencies, based on the agencies' interpretation of privacy law, are unwilling to share information on clients with non-government agencies. Government agencies should review their interpretations, and clarify and publicise the provisions of privacy law affecting the sharing of data between government and non-government agencies serving the same clients.

Investing in a wide-access, client-centred, social services data infrastructure

A wide-access, client-centred, data infrastructure involves strong economies of scale and scope as well as network effects – the wider the range of data shared and the more people who share data, the greater the potential value. The broader the scope of a data infrastructure, the greater the power it will have in supporting innovation in operations and commissioning. The combining of disparate sources of data at the client level allow a much better understanding of likely outcomes and of which services are likely to be most effective for particular clients. This, in turn, allows for better evaluation of the impacts of different interventions. The marginal costs of adding additional data and users are low.

These conditions point to a role for government in helping to establish a wide-access, client-centred, data infrastructure. The returns from an investment of this sort would depend on a range of factors, including other necessarily experimental changes that the Government made in the commissioning of social services (Chapters 5 and 6). While the Government could not predict what the returns would be over time, it could be confident that establishing a wide-access, client-centred, data infrastructure would be a step towards higher returns from the use of social services resources.

The Social Sector Board has commissioned work to develop a plan for implementing social sector data integration, including common standards. This work provides an opportunity to look further ahead to the development of a wide-access, client-centred, social services data infrastructure.

R8.5 The Social Sector Board should initiate a project on social sector data integration that includes the design of institutions and processes to develop a comprehensive, wide-access, client-centred data infrastructure. This infrastructure should be accessible to commissioning organisations, providers, clients and researchers of social services.

8.4 Data sharing to support innovation

The flexibility provided by a consent-based, wide-access, client-centred, data infrastructure would potentially allow easy entry of new providers and for existing providers to join up to address identified service gaps. This would help change the role of the government social services agencies to be system stewards rather than system controllers. It would allow actors within the sector to drive more relevant, nuanced and successful innovation (Chapter 7).

Allowing consent-based data access to third parties would stimulate new kinds of solutions and faster adaptation and innovation. It is likely that third parties will identify particular client segments where they have innovative ideas on how to address difficult-to-solve problems (Mansell, 2015). This would remove the government agencies' monopoly on data and provide a high-trust platform for developing new services.

The data infrastructure provided by the recently announced Apple Research Kit is a good analogy. This allows a wide range of providers to build specific apps aimed at niche markets. For instance, the Fox foundation, a charity, has been working on an app to find ways of tracking the symptoms of Parkinson's disease. The app "can measure someone's finger-tapping on an iPhone's screen …The phone's accelerometer studies gait and balance while the user is walking" (*The Economist*, 2015, p. 72).

Mansell (2015) proposes using consent-based sharing of individual data to find ways to address obesity.

> [Obesity] is a complex issue that involves multiple influences ad outcomes (life style, health support, employment, etc.). There is a lot of research required and learning what works will likely indicate different solutions for different kinds of people. The forward fiscal risk to government makes this a high fiscal ROI for government. The forward social costs are likely high too. (p. 105)

The National Health IT Board is already building the opportunity for third-party providers to develop apps for use with personal health data (Box 8.1). As a shared data infrastructure develops, other government social services agencies will be able to draw from the National Health IT Board's experience.

F8.5 Where individuals give consent, government agencies could give third parties, such as non-government organisations and academia, access to identifiable personal data to support the development and provision of innovative social services.

R8.6 The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. This should, where individuals consent, include sharing identifiable personal data held by government agencies.

Q8.1 What difficult-to-solve social problems would be amenable to new solutions developed by data-sharing partnerships between the Government, non-government organisations and academics?

8.5 Implementing better data and analytics

The design of a wide-access, client-centred, data infrastructure

A wide-access, client-centred, data infrastructure that shares information across social services organisations would support better service integration and targeting, more efficient service delivery and better and easier monitoring and evaluation of service performance. The data infrastructure design needs to encourage trust between system participants and achieve an appropriate balance between efficiency, data accessibility, data quality and privacy. The design should build in flexibility and scalability to learn from experience and adjust to future needs as they emerge.

The design of an efficient and effective wide-access data infrastructure is a specialised task. There are both international and New Zealand examples of setting up such infrastructures that show they are feasible, and can be both fit for purpose and cost effective.

The Estonian Government's X-Road (or data exchange layer) is a system that routes queries between independent computer systems. Each system, based on different technologies, needs an "adapter" to be able to send and receive encrypted information in the X-Road format (Bershidsky, 2015).

> The X-Road allows institutions/people to securely exchange data as well as to ensure people's access to the data maintained and processed in state databases.
>
> Public and private sector enterprises and institutions can connect their information system with the X-Road. This enables them to use X-Road services in their own electronic environment or offer their e-services via the X-Road. Joining the X-Road enables institutions to save resources, since the data exchange layer already exists. (REISA, 2015)

Bershidsky (2015) noted that "the distributed nature of the system makes it inherently more secure than if it had been centralized. The architecture also makes it possible to use legacy systems and databases in the public and private sector. Plus the system has been cheap."

Citizen access to the X-Road system requires a unique identifier. Estonian citizens have used either a national identity card, or an internet banking identifier (Ott, 2003).

In New Zealand, the National Health IT Board is overseeing the development of a range of data-sharing initiatives that include health service providers and patients having access to a patient's personal health information. Private health electronic networks will be able to exchange information securely across networks, and third parties will be able to provide services that use personal health information (Box 8.1). Sharing of personal health information relies on the use of the unique personal National Health Index number.

Building on current initiatives and learning from experience

The Commission considers that the social sector agencies should investigate the building of a wide-access, client-centred data infrastructure across the social services. In doing so, they should consider, among other initiatives, what can be learnt from:

- the National IT Health Board's experience of sharing personal information in the health sector (Box 8.1);
- current work under way to link data, including personal data, held by government social sector agencies; and
- the work being undertaken by the CGAWG to encourage the efficient capture of data for the purposes of monitoring and audit of non-government social services providers (section 8.3).

The design of a data infrastructure should allow for scalability and flexibility to learn from experience and to adjust to new opportunities that emerge. While a broad vision of future capabilities will be a useful guide, incremental trialling of successful smaller-scale initiatives will build confidence and momentum. Incremental implementation within a coherent vision will reduce the risk of large cost overruns and under-performance that have characterised many government IT investments. Yet the vision needs to be clear about the outcomes sought and the potential range of data that will be captured.

Government social services agencies and other participants will need to have realistic expectations about the timeframe in which the benefits of investments in a social services data infrastructure will be realised. MSD, for instance, has taken 15 to 20 years to build the database that now underpins its Investment Approach. While Estonia's X-Road services supported only 8 million enquiries in 2004, the number had grown to 290 million by 2013 (REISA, 2015).

Getting the benefits of data sharing sometimes involves radical reorganisation of business arrangements as some providers take advantage of new opportunities and others fail to do so (Mansell, 2015). Past experience in other service industries such as music recording, retail, taxis and publishing, shows that there will likely be resistance to change.

New social services data-sharing initiatives require transparent governance arrangements to maintain the trust and confidence of service clients, providers and citizens. Transparency will help clients to see the value in sharing data, be confident that they have a good level of control over the use of their personal data and trust that the risks are being well managed. The governance arrangements will need to fit with other social services organisational developments, for instance in the commissioning architecture (Chapter 5) and service delivery models (Chapter 6).

Analytical and IT skills are in high demand globally (NZPC, 2014a). Their limited availability in New Zealand will act as a constraint on the speed at which a wide-access, client-centred, social services infrastructure can be designed, built and used.

The Wise Group has identified limited availability of information skills as an issue that needs to be addressed in the health sector:

> [There is a need to] initiate a programme of work to continue to develop and foster 'information competence' through all levels of the health sector. (Wise Group, sub. 41, p. 4)

Government social services agencies need to develop strategies to increase analytic information and technology skills more widely in the social services.

Benefits of investing in a wide-access, client-centred, social services data infrastructure

An investment in building a wide-access, client-centred, social services data infrastructure will enable the social services system to learn and innovate and become more effective. Data and analytics will help channel resources to a diverse range of services and providers to improve outcomes for clients and get a better ROI. Commissioning organisations, providers and clients will be able to cost-effectively monitor and evaluate provider performance in real time, shaping choices about which services it is best to use and how to develop services to better meet needs.

9 Investment and insurance approaches

Key points

- The Government's Investment Approach is an attempt to increase the effectiveness of social services through better investment and targeting of investment (Chapter 3). It is also about providing information and incentives to support early intervention, rather than waiting for a crisis.
- The Investment Approach adopts investment and insurance tools to prioritise clients and select interventions based on the expected reduction in future welfare liability (FWL). This liability is a proxy measure for future net social benefits. While the proxy is imperfect, the Investment Approach is a significant improvement on traditional approaches.
- FWL identifies the people for whom the gains might be greatest, but provides no guidance on effective interventions. Reliable information on interventions, including their cost and effectiveness, is also essential to apply an investment approach.
- There is scope to refine the Investment Approach and to apply it more widely.
- A further extension is to assign the financial risks associated with poor social outcomes to organisations that are better placed than government to manage and reduce those risks. Such an "insurance approach" might offer strong incentives for timely and value-adding interventions.
- *Social insurance* is an insurance scheme organised by the state with compulsory membership, and in which premiums are related to the ability to pay. Some non-government organisations have the potential to become social insurers for enrolled populations. This model should be further investigated.

"Prepare rather than repair." A simple and catchy idea: that well designed and targeted early interventions can reduce or eliminate adverse consequences at a later date (Chapter 2). Ideally, individuals, their families and the social services system should act whenever they expect net benefits over time. But that will only happen if the relevant parties have the information and resources required and face the right incentives.

Further, the social services system will be most effective if decisions about what services are provided, who they are provided to and when they are provided, are made so as to maximise the net social benefit from the funds expended. This requires a common measure of social benefit that applies across the social services system. The Government's Investment Approach is a first step towards such a measure (section 9.1).

Insurance is a common theme in social services, reflecting that people would like to be "insured" against adverse events outside their control (section 9.2).[59] Private insurance can be useful to this end, but its limitations typically leave government holding the "residual" risk.

An "insurance approach" to social services is one that assigns the financial risks associated with poor social outcomes to organisations that are better placed than government to manage and reduce those risks. Such an approach might offer strong incentives for timely and value-adding interventions (section 9.3).

9.1 The Investment Approach

The Government's Investment Approach is an attempt to increase the effectiveness of social services through better investment and targeting of investment (Chapter 3). It is also about providing an incentive for early intervention.

[59] *Insurance* is paying a premium to an insurer with the expected consequence of a compensation payment should specific adverse circumstances arise.

The Investment Approach adopts investment and insurance tools to prioritise clients and select interventions based on the expected reduction in future welfare liability. This liability is an imperfect proxy measure for future net benefits. However, it is a significant improvement on traditional approaches and there is scope for further improvement.

Many submitters commented on the Investment Approach (Box 9.1).

Box 9.1 **Submissions about the Investment Approach**

> Manawanui believes that an investment approach to social services spending will lead to a better allocation of resources and better social outcomes. (Manawanui, sub. 8, p. 13)
>
> [An investment approach] definitely would not lead to a better allocation of resources and better social outcomes. It is dependent on measuring outcomes where you can be certain what and which intervention caused these outcomes. It is very rare to be able to ascertain this in an open diverse community; and it sends perverse signals to service providers. (Auckland District Council of Social Services, sub. 55, p. 8)
>
> We could be concerned if the analysis failed to measure the value of family care, and strengthened the incentive for the system to free-ride on unpaid family carers. If family care is regarded as a free service under an investment approach, it would be easy to imagine the level of paid care for people with illnesses or disabilities being reduced when the long-term cost is crystallised. That could be a very negative outcome. (Carers New Zealand, sub. 71, p. 8)
>
> An investment approach to social services would certainly lead to a better allocation of resources and better social outcomes. The concept of maximising long term social return would provide the focus required to support the delivery of tangible and definable outcomes which make a real and lasting difference to society. Any investment mechanism will need to align both the social and financial return to risk in order to attract the investment and deliver social return in the areas providing the greatest benefit to society. (Wise Group, sub. 41, p. 32)
>
> The investment approach has significant ethical and practical limitations … using clinical cut-offs for establishing who receives assistance, better data on how the client is doing, tracking their alliance with the practitioner, and actually listening and working with the client's ambitions will achieve far more than the investment approach. (Methodist Mission, sub. 4, pp. 21–22)

FWL identifies the people for whom the gains might be greatest, but provides no guidance on effective interventions. Information on interventions, including their cost and effectiveness, is also essential. Collecting this information is a crucial component of the investment approach, and allows service targeting based on return on investment (ROI). Box 9.2 explains ROI and targeting, and how they support an efficient allocation of resources.

Box 9.2 **Investment approach concepts**

Return on investment

ROI is a measure that compares the expected return and cost of an investment. For example, an investment with an expected return of $250 on a cost of $100 has an ROI of 2.5. Investments with a higher ROI should receive priority, all else equal. And investments with an ROI of less than one should be avoided. Expected returns can be measured in different ways. Examples include direct financial returns, reductions in future financial liability, and social returns (which includes benefits to people other than the investor).

Targeting

Targeting is the process of matching services to clients. Done well, it maximises total benefits within a budget limit. Optimum targeting requires a calculated ROI for each feasible service for each client, and then matching clients to services so as to maximise aggregate ROI.

The information requirements for optimum targeting are significant. The relevant information needs to be underpinned by high-quality research and evaluation. Well-designed and targeted programmes can offer large returns to government:

> … funding for specialist social services for [children and young people with serious conduct problems] is most effectively utilised when an investment approach is taken, concentrating funds in evidence-based programmes which are carefully integrated into the New Zealand cultural context. There is good evidence from the Washington State Institute of Public Policy that investment in early interventions which research has demonstrated lead to improved outcomes, leads in turn to reduced costs to the state over time and safer communities. For example, for every dollar spent on Functional Family Therapy for young offenders, there is an estimated net benefit to the Washington State of US$8.88. (Youth Horizons, sub. 67, p. 1)

Better information on the likely success of services is also a good thing for clients and their families. Presumably few clients would want to miss out on a service with a high chance of success, or receive a service that had a low chance of success.

Efficient allocation of resources

ROI also provides a basis for the allocation of funds across social services agencies. A risk of inflexible agency budgets is that a low-ROI programme in one agency might be funded at the same time as a high-ROI opportunity in a different agency is missed. An efficient allocation would favour high-ROI programmes over low-ROI ones, regardless of which budget funded those programmes.

A significant advantage of using FWL is that changes in individual liability can be aggregated into a performance measure. This allows for benchmarking across programmes, teams and agencies. Benchmarking can put pressure on low performance, and highlight where to seek information on better performance.

FWL is a narrow measure that compares the current fiscal cost of services with the future fiscal savings. It confines benefits and costs to fiscal impacts. These are important and much easier to estimate than wider social benefits and costs, but the narrowness of this approach is a potentially serious limitation (Chapple, 2013).

There are four important questions to consider.

- Is FWL a good proxy for what society really cares about?
- Is FWL a better proxy than what it replaces?
- Is FWL better than feasible, alternative proxies?
- Can FWL be usefully refined and improved?

Is future welfare liability a good proxy for what society really cares about?

There are good reasons for believing that FWL is strongly correlated with what society does care about, at least for the social services to which it is currently applied – primarily employment services. The service is aimed at getting people into work, and people who get and stay in work will likely have lower future welfare costs.

Further, being employed is strongly correlated with better social outcomes (Chapter 15). The Welfare Working Group (WWG) called for recognition of the value and importance of paid work to social and economic wellbeing:

> Enabling people to move into paid work reduces the risk of poverty, improves outcomes for children and supports social and economic well-being. (WWG, 2011, p. 1)

Liability calculated at the level of an individual can be interpreted as a budget. That is, how much would it be worth spending to reduce this person's liability to zero? This "budget" may be hundreds of thousands of dollars for many clients.[60] This will likely be significantly larger than the amount that government has been willing to spend on such clients in the past.

The approach may therefore justify higher overall levels of welfare spending. Whether it does or not depends on the availability of services that can cost effectively reduce FWL.

Reduced FWL frees resources for other social services, both now and in the future. In addition, explicit recognition of future liabilities provides a basis for understanding inter-generational fiscal transfers that, if too imbalanced, undermine inter-generational equity (Evans & Quigley, 2013). This is not an unimportant issue – the Government's FWL was recently estimated at $69 billion (Taylor Fry, 2015).[61]

Is future welfare liability a better proxy than what it replaces?

> We can only speak for home support (DHB, ACC and disability). An investment approach would be an improvement on what currently exists. (Home and Community Health Association, sub. 114, p. 20)
>
> Simplistic measures, such as how many people have moved off benefit, do not tell the whole story. Has the move off benefit meant an improvement in the person's social and economic well-being? Is it sustainable? (Inclusive NZ, sub. 32, p. 5)

The Investment Approach is driving strongly-directed ROI-based targeting within MSD. Results to date suggest that improved targeting has been very successful in reducing FWL. MSD implemented policy and operational changes during 2013/2014 that were responsible for a $2.2 billion of a total $7.5 billion reduction in the FWL (Taylor Fry, 2015). In the previous system, according to the WWG, "the annual appropriations process encourage[d] a focus on those easiest to move off benefit, and away from those with greatest disadvantage, where investment based on managing a long-term cost would make the greatest difference" (WWG, 2011, pp. 130–131).

It would appear that the Investment Approach is likely to be strongly correlated with what society does care about, and its wider adoption would lead to substantial improvements in targeting (relative to the status quo).

The large scope for getting better outcomes by applying an investment approach more consistently across the social services is evident. Chapter 2 documents how opportunities for early intervention are being missed. At the same time, there is a focus on introducing new programmes rather than continually testing the value of the large stock of existing programmes. The Better Public Service (BPS) targets attempt to direct effort towards the most important result areas. Yet decisions on resource allocation are only loosely related to the targets.

Mansell (2015) argued, moreover, that the use of targets can have perverse effects. For instance, the BPS target "of getting 85% of 18 year olds achieving NCEA [National Certificate of Educational Achievement] level 2 … encourages schools to focus on those students who are already close to achieving NCEA level 2 and assist them to achieve it" (p. 48). Mansell pointed out that this gives schools little incentive to raise the achievement of the better students who will easily achieve NCEA level 2, or very weak students who have little chance of doing so. Over the years of schooling, weak students fall progressively behind, making success ever more distant, and increasing the risk of other poor outcomes. Moving to an investment approach would improve schools' incentives to raise the achievement of the full spectrum of students.

F9.1 Decisions made using the Investment Approach are likely to be significantly correlated with what citizens care about, for those services and clients where the approach is applicable. Its wider adoption would likely lead to substantial improvements in the targeting of social services.

[60] The average lifetime cost of current income support clients was $107 000 as at 30 June 2014 (Taylor Fry, 2015).

[61] $69 billion was the predicted future cost of income support and associated administrative costs for clients who received income support in 2013/2014.

Is future welfare liability better than feasible, alternative proxies?

Chapple (2013) suggests that a cost–benefit analysis (CBA) is a more appropriate tool to prioritise interventions, as it explicitly incorporates the costs and benefits incurred by wider society.

Social Service Providers Aotearoa argued for an investment approach to be supplemented by a CBA:

> We acknowledge the need for an investment approach to social services but submit that the forward liability model that emerged from the Welfare Working Group's benefit review and reforms is flawed in that it assumes that a reduction in fiscal costs of welfare will maximise employment and social outcomes. … We submit that this approach emphasises risk rather than benefit … it needs to be balanced by a cost-benefit analysis. In the context of social services, the agencies concerned must be tasked to improve social outcomes, not merely reduce the forward liability. This will look more positively at "risk" as an area for management but is also essential to innovation. (Social Service Providers Aotearoa, sub. 129, p. 6)

CBA has many uses, and can be considered the "gold standard" aid for guiding government decision making:

> Cost-benefit analysis (CBA) is a technique for evaluating collective decisions that hinges on the comparisons of the costs of a proposal to its benefits, where costs and benefits are valued in monetary terms. In essence (and abstracting from the relevant technicalities), cost-benefit analysis asks whether the sum of the amounts the individuals who comprise the community at issue would be willing to pay for the project to proceed exceeds the costs of that project. (Ergas, 2009, p. 1)

However, CBAs are expensive and typically conducted on a one-off basis by skilled staff:

> CBAs often require a good knowledge of economics, consideration of the issues from first principles, experience with other CBAs and practical knowledge of how to apply the various techniques discussed in this guide. Most government agencies will not have a sufficient flow of CBAs to justify the maintenance of sufficient in-house expertise to carry out a good quality CBA, and should therefore consider the engagement of outside consultants. (New Zealand Treasury, 2015, p. 13)

CBAs are typically applied at the programme level rather than at the individual client level. The Treasury's *Guide to Social Cost Benefit Analysis* pointed out that *partial CBA* techniques may be appropriate to rank projects within a fixed budget:

> 'Cost utility analysis' and 'cost effectiveness analysis' are kinds of partial CBA that may be appropriate in situations where projects have to be ranked within a fixed budget and benefits can be quantified but not expressed in dollars (monetised). An example is the practice of Pharmac, which estimates the benefits of pharmaceutical drugs in 'qalys'. A qaly equals (change in health-related quality of life) times (change in quantity of life). Because of the fixed budget, it is sufficient for projects to be able to be ranked, and funded up to the point where the budget runs out… More generally, cost effectiveness analysis can refer to analyses where cost data is expressed as a ratio of some kind of effectiveness data. (New Zealand Treasury, 2015, p. 12)

The Investment Approach is a form of "cost effectiveness analysis" as described by the Treasury. MSD is using it to determine which projects to fund, based on a quantified benefit. Projects are ranked by ROI, and then funded within an overall budget constraint.[62]

The Investment Approach is a partial CBA technique that is being applied appropriately. A full CBA approach would be unnecessarily costly for this purpose.

Can future welfare liability be usefully refined and improved?

Slavish application of an investment approach might lead to perverse outcomes. For example, some studies suggest that obesity might reduce future health costs as obese people die more quickly (van Baal et al., 2008). A health system that sought only a reduction in future health costs might therefore do little, if anything, to discourage obesity.

[62] In this comparison, a "project" is the combination of a client and an intervention. The "cost data" is the expected ROI (the expected reduction in FWL divided by the cost of the intervention).

Such examples miss the point that the purpose of an investment approach is improving overall social outcomes. Should a particular choice of proxy promote perverse outcomes, then that is an argument for refining the proxy rather than abandoning the approach.

Targeting purely on ROI to government does not generalise well to all social services. Extending the investment approach to aged care, for example, would require a different measure of return. Such a measure might, for example, reflect improvements in quality of life.

The New Zealand Council of Trade Unions pointed out that the sustainability and quality of employment, from the client's perspective, was ignored by the investment approach:

> The initial findings from the investment approach shows that there has been a decrease in the number of beneficiaries and the Government has welcomed this as this is one of the Better Public Service targets. But the glaring omission from the initial evaluation is an evaluation of outcomes (such as decent jobs) for the beneficiaries themselves. The evaluation found a significant churn between employment and people going onto other benefits rather than off benefits. Missing from evaluation was any focus on the type and quality of employment that people are going into and how sustainable it is and the impacts from the beneficiaries 'point of view – in the end, the crucial point. (sub. 103, p. 18)

While an estimate of FWL on an individual basis should be sensitive to the sustainability of employment, it does not explicitly incorporate the client's perspective of employment quality. In theory that could be done by extending the model to incorporate private costs and benefits to the client. A simple, but perhaps worthwhile, response would be to add the expected value of future income tax receipts to the reduction in FWL.[63] This would tilt the system towards finding better paid jobs, all else equal. Alternatively, employment quality issues might be better dealt with via other policy mechanisms.

Including future tax receipts in the measure of return has benefits beyond being a proxy for employment quality. It would move FWL closer to being a government-wide future liability measure, supporting better cross-government resource allocation. A similar case could be made for adding education and health costs into the measure.

There is much potential for improvement in the proxy measure of social return, as noted by the Wise Group:

> Gaps currently exist in both the definition and capture of data to support the measurement of social returns on investment. Outcomes are often inherently difficult to define. However an investment approach would focus the need to address these definitions and stimulate innovative techniques for measurement. Often surrogate and associative measures can provide a pragmatic avenue for assessing the effective delivery of outcomes. (sub. 41, p. 32)

The potential for improvement of the FWL measure is a positive feature of the Investment Approach, and such improvements should be pursued.

R9.1 The Investment Approach could usefully be applied more widely. Future welfare liability – its underlying proxy for social return – should be further refined to better reflect the wider costs and benefits of interventions.

Extending the investment approach to improve allocation decisions

The Investment Approach as currently implemented applies within a single programme area (Work and Income within MSD). It is logically one of a larger group of "investment approaches" (Table 9.1).

[63] Assuming that tax receipts are a reasonable proxy for income, and that income is a reasonable proxy for employment quality.

Table 9.1 A family of investment approaches

Level	Applies	Effects
Current Investment Approach – within programme	Across clients	Improved client targeting within programmes; improved programme key performance indicators
Investment approach – whole of agency	Across programmes	Plus improved resource allocation within agencies
Investment approach – whole of government	Across agencies	Plus improved fiscal allocation across agencies; could add in future tax revenue
Investment approach – full inter-temporal version	Across time	Plus improved fiscal allocation across time
Insurance approach	–	Allocates financial risk to improve incentive alignment

There is significant scope to extend the Investment Approach towards the more expansive approaches further down Table 9.1.

Investment approach – whole of agency

Expanding the Investment Approach to include a wider range of programmes within MSD could improve that agency's resource allocation across those programmes. MSD is currently investigating the feasibility of applying the Investment Approach to the social housing system (Edwards & Judd, 2014). The Government has asked the recently appointed Modernising Child, Youth and Family Expert Panel to consider the development of an investment approach for Child, Youth and Family (MSD, 2015c). Expanding the Investment Approach within an agency could involve using a common outcome metric across programmes and making allocation decisions across programmes, or it could involve treating different programmes separately. Using a common outcome metric and making decisions across programmes will lead to a greater improvement in the allocation of resources than treating different programmes separately.

Providers are a necessary part of the relevant data collection, which will involve some additional costs:

> To utilise an investment approach would require significant resource to be put into the gathering of evidence and research into the outcomes and impacts of different services. (Social Sector Trials, sub. 126, p. 25)

> An investment approach to social services spending has the potential to lead to better allocation of resources and social outcomes. But it will require robust data collection and analysis. (Supporting Families in Mental Illness NZ, sub. 49, p. 13)

For ROI-based allocation to work across programmes, providers will also need access to the relevant client information and ROI information. Data collection and sharing issues are further discussed in Chapter 8.

It is important that this approach is applied to the stock of existing programmes as well as to new initiatives. Existing programmes represent a large proportion of expenditure, and therefore are likely to be a larger source of gains from improved resource allocation.

Investment approach – whole of government

> An investment approach should lead to better long-term outcomes and efficiencies across the system in the longer-term. (National Services Purchasing, sub. 111, p. 13)

> [Gaps in the investment approach might be improved by factoring] in the full/hidden lifetime costs – e.g. Family Violence/Children in poverty/not succeeding in school/health/justice/welfare/personal and system costs. (Presbyterian Support New Zealand, sub. 76, p. 21)

A risk of the current Investment Approach (and indeed of the wider social services system) is that it is largely blind to the most cost effective intervention where that intervention sits in another administrative silo. For example, health, education and other problems often co-exist with employment problems. Applying an investment approach within an employment context might overlook the savings to the health and education

parts of the system and vice versa. Not recognising these savings, the individual parts of the system might under-invest.

A first step towards better allocation decisions would be to calculate the future liability of individuals (or families as appropriate) at an agency level. The second step would be to share that information across agencies. The final step would be to combine this with cross-agency ROI information on suitable programmes, enabling better cross-agency prioritisation of programmes.

Developing common outcome measures across agencies and programmes, and considering investment decisions in a common framework would support the greatest improvement in the use of resources. A comprehensive, client-centred data infrastructure that spans social services provision would help predict outcomes for different types of clients (Chapter 8). The greater the time span of data available the more accurate the predictions would be. Measures of actual outcomes compared to predictions would help identify the effectiveness of interventions and guide resourcing decisions.

Decisions on allocating resources will need to fit within the government's preferred commissioning arrangements (Chapters 5 and 6). Finer-grained decisions could be devolved to improve responsiveness and flexibility. Even so, it would be desirable to maintain a broad decision-making framework across the social services. A broad framework is needed to guide resources to types of service and types of clients where, looking across the social services, the ROI is highest.

R9.2 The Investment Approach should be extended to operate at a cross-programme, cross-agency level.

Investment approach – full inter-temporal version

An investment approach naturally brings in a time dimension, as future costs are used to prioritise spending decisions made in the present.

An investment approach should also generate the information necessary to justify the optimal transfer of funds across time (ie, *inter-temporal* transfers). The information generated by the Investment Approach in its present form might, for example, identify some interventions that offered a significant ROI but could not be made within current budget limits. Such information might be used to support an ad hoc budget bid to fund those interventions.

More generally, an investment approach could be extended to operate across multiple budget periods.

> An investment approach that takes a broad-based, long-term view of government spending and its resulting benefits, rather than an approach which relies on short-term savings and short-term outcomes, would be welcomed. The difficulties that relate to a long-term approach, within a short-term political cycle, are however acknowledged. (New Zealand Educational Institute Te Riu Roa, sub. 40, p. 39)

> New investment which generates positive social returns may well be funded through reduced levels of social support funding in the longer term. This is likely to be easier to achieve than attempts to redirect existing social support funding in the short term. (Wise Group, sub. 41, p. 32)

In principle, transfers might be required in either direction. Concern about transferring the liability for current citizens to the future might justify borrowing (fiscally) from the future to reduce the (human) cost in future. But incurring too much public debt could hamper the ability of future generations to fund their own social services. The expected costs of demographic change (Chapter 2) might justify the opposite – public saving now to fund future expected costs.[64]

Borrowing now to fund investments that will reduce welfare liability is correct in principle. But it does run the risk of burdening future generations with debt, leaving them less able to meet the costs of their own

[64] Whether or not a government actually borrows to fund a particular activity depends on its net cashflow for the year in question, which in turn reflects its wider revenue and spending decisions. For simplicity, this section ignores this when referring to "borrowing" and "saving".

social services. A higher burden of proof should apply to the current generation to justify such inter-generational transfers, relative to spending funded from current income.

F9.2 Borrowing now to fund investments that will reduce future social welfare liability is good in principle, but has risks in practice. A higher burden of proof is required to justify such borrowing, relative to spending funded from current income.

An "insurance approach"

The effectiveness of the investment approach is crucially dependent on organisations using reductions in FWL (or an improved proxy) as a performance measure that strongly influences behaviour and allocation decisions. That is, the organisation and those in it need to face strong incentives to maximise that performance measure. The benefits of an investment approach will not be realised if these incentives are weak.

Institutional architectures affect the form and strength of incentives. While the investment approach was developed in the context of top-down control, it could also be applied in decentralised architectures (Chapter 5).

Under top-down control, the Government carries the financial risks of FWL. Assigning some or all of that risk to organisations would create strong incentives for those organisations to take actions that reduced that liability. Should those parties be more responsive to those incentives than would government, they may be a better holder of that risk.

Further, some organisations may be better placed than government agencies to manage such risks. This could be because they have close social connections with clients or are better placed to influence client behaviour.

An "insurance approach" is one that assigns part of all of the financial risk of poor outcomes for specific clients to other organisations. Section 9.2 discusses the links between insurance and social welfare. Section 9.3 explores insurance approaches.

Contracting for outcomes and social bonds

Contracting for outcomes (Chapter 12) and social bonds (Chapters 3 and 6) can be seen as short-term and medium-term versions of an insurance approach respectively, where the outcome measure is chosen to proxy the change achieved in long-term liability. In each case, the contracted party carries financial risks that the specified change in the outcome measure will not be achieved.

If well designed, payment terms should reflect the change in future liabilities achieved by the contractor through well-chosen investment during the contracted period. But measurement difficulties and financial risk combine to make such contracts costly to negotiate, limiting the application of these approaches. An insurer carrying the long-term risks does not face these pre-contract negotiation costs.

9.2 Insurance and social welfare

Individual choices – including the use of private financial and insurance markets – can assist people to improve their social welfare. But there are many reasons why people fail to make good choices or do not take advantage of private markets. Similarly, there are reasons why private financial and insurance markets do not exist for particular purposes, even in the presence of private demand for such services.

An understanding of these reasons is important background for understanding government involvement in "social" insurance.

People may not make optimum investments in themselves

Many individuals invest in themselves, with or without the support of their families.[65] But, there are many reasons why people may not make optimum investments in themselves.

One reason is that a lack of information or inadequate access to finance can lead to private under-investment.

A further reason is that individuals may underweight the costs of present actions to their future selves. For example, they may prefer to consume more today and defer saving for retirement until tomorrow. Yet tomorrow, the same logic applies. The consequence of such thinking is lower-than-ideal savings.

The presence of free or subsidised social services reduces the incentives for self-investment and self-insurance.

Financial markets have limitations

People might want to invest in themselves, but lack the money to do so. This problem might be alleviated if they could borrow – however those in most need may have little ability to borrow from private lenders. Government-backed loan schemes can alleviate this problem in some cases (eg, Box 9.3).

Box 9.3 **Borrowing to fund tertiary education**

A teenager may be confident that their future earnings will receive a substantial boost from tertiary education. From their perspective, it would make sense to borrow money now and repay it from future (increased) earnings.

However, private financial organisations such as banks may be reluctant to lend. The teenager typically has no assets to borrow against, nor do they have a credit record. Their success at university and subsequently attracting a higher-paying job is uncertain. And a bank might fear adverse selection (ie, the less-talented or motivated students take out more or larger loans) or moral hazard (ie, having got the loan, the student puts in less effort to their studies).

These risks to lenders make the private supply of student loans expensive. Recognising these problems, governments in New Zealand, Australia and other countries have created public student loan schemes.

Private insurance markets have limitations

Individuals and their families are too small to pool the risks of random, infrequent events:[66]

> …disability itself is largely a random event, unable to be planned for in advance through saving/budgeting and life adaptation. This applies to congenital disabilities as well as those caused through injury/accident. The consequences of such events can be life-changing for individuals and families. Insurance before the event is often not an option. Even when there may exist private insurance mechanisms, the longer term repercussions of a disability are not always adequately covered. Moral hazard and adverse selection add to the inefficiencies of relying upon private insurance for funding. [67] Ultimately and understandably, for many of the more serious disabilities, New Zealand's choice has been social insurance funded from general taxation or a special levy – as in the case of ACC.
> (New Zealand Disability Support Network, sub. 47, p. 4)

[65] Invest, in this context, means incurring a cost now with an expectation of a return over the longer term. An example is staying a year longer at school (and therefore forgoing some income) with the expectation of a higher income overall over one's working life.

[66] Insurance schemes are built on the principle that outcomes for a large sample of policyholders are predictable whereas for the individual they are not. Individual policyholders benefit by *pooling* their risk, and so insuring them against the occurrence of some contingency with high or catastrophic financial costs.

[67] Moral hazard is the tendency of people with insurance to reduce the care they take to avoid or reduce insured loses. Moral hazard is one of the design issues that need to be taken into account in the design of social services more generally. Co-payments and deductibles are traditional approaches to reducing moral hazard (see Appendix F).

Private insurance markets are effective at pooling risk, but they have their limitations.

- Those most affected may not get the chance to participate (eg, an individual does not get the option of purchasing disability insurance before their birth).[68]
- The government in many cases covers the *residual risk*; that is, it covers the costs of claims from the uninsured. Knowing this, many will choose not to take out private insurance. Insurers face an adverse selection problem – insurance is most attractive to those with higher risks.[69] This pushes premiums higher, making the insurance even less attractive to the wider population.
- Problems of moral hazard and adverse selection make it uneconomic for insurers to offer all desirable insurance products.

Individual choices may not result in the best social outcomes

Private choices as to the optimum level of self-investment also differ from socially optimum choices where there are significant spill-over effects. For example, while an individual benefits directly from vaccination, the unvaccinated in their community also benefit indirectly due to them having a reduced chance of coming into contact with an infectious individual (Fine, Eames & Heymann, 2011). If only private benefits are taken into account, then too few people may choose to be immunised relative to the social optimum.

9.3 An insurance approach

Early intervention can prevent future costs. If those costs (suitably discounted) exceed the cost of intervention now, then it is socially optimal to make that intervention. But there are reasons why a less-than-optimal amount of early intervention might occur if the costs and benefits of intervention accrue to different parties.

Similar considerations apply to service quality. Fee-for-service arrangements might tempt providers to skimp on quality. Conversely, cost-plus arrangements might encourage overly high-quality services. An insurer has the incentives to choose a level of quality that minimises their long-term cost.

The government can transfer risk, but carries residual liability

Reflecting citizen expectations, the Government has accepted responsibility for a significant number of the personal risks faced by its citizens. These include accidents, disability, hospital care and old age.

In this sense, the New Zealand Government is a big insurance company, and all citizens are "members" of an insurance scheme. Citizens pay their premiums through the tax system.

The Government faces the question of whether it is better to carry risk itself or transfer it to other organisations. Transfer only makes sense if another organisations can better manage those risks. Better management might arise for many reasons, including that the organisation:

- has close connections to, and better information about, a defined population;
- is better able to positively influence the behaviour of a defined population; or
- faces stronger incentives to manage those risks.

If better risk management by other organisations can reduce the total liability, and that reduction exceeds the transaction costs involved in the risk transfer, then there is an economic case for the Government to pay premiums to such organisations for them to assume and manage the Government's risk.

[68] Their parents could purchase such insurance, but this is outside the control of the individual in question.

[69] Adverse selection is the tendency of people who seek to buy insurance to have higher than average expected claims for their risk class because of risk factors known to them but unknown to the insurer (see Appendix F). Adverse selection undermines risk pooling, and can make private insurance infeasible. In such cases, compulsory insurance is an option.

Government cannot transfer its liability completely. Should, for example, an insurer fail, the Government may be left with discharging the insurer's responsibilities to its members. The costs of carrying residual liability should be factored into the economic case.

Social insurers

Social insurance is an insurance scheme organised by the state with compulsory membership, and in which premiums are related to the ability to pay.[70]

This definition distinguishes social insurance from *private insurance*, where membership is voluntary and premiums are set without reference to a member's ability to pay.

The social insurance models discussed in this section generally involve the Government paying premiums on behalf of those insured.[71]

Reasons for compulsory social insurance

Private insurers might find certain classes of consumer to be unprofitable to insure, and therefore not serve that market. Alternatively, they might only serve those consumers at such a high price as to exclude those lacking the necessary financial resources. Alternatively, some consumers might opt not to take out insurance even when they can afford to. In such circumstances compulsory insurance, with some or all public funding or provision, can be important for ensuring equity of access, and reducing any undesirable social costs from consumers having inadequate insurance (Barr, 2012).

These problems might be addressed by a social insurance model. In such a model, all citizens are enrolled with an insurer. Based on the member's risk profile, the insurer receives a premium from the Government each year, and social services costs ("claims") are paid directly by the insurer. The insurer can calculate an expected future claim cost for every member, and is incentivised to make any and every early intervention that will reduce the expected future claim cost by more than the cost of the intervention. Similarly, the insurer is incentivised to make good decisions about service delivery as they bear both the current costs of excess quality and the future costs of poor quality.

A potentially difficult issue for social insurance is establishing the state-funded entitlement for each individual. For instance, in the Netherlands compulsory health insurance model, the Health Insurance Act sets out broad entitlements and insurance contracts specify precise entitlements (van de Ven & Schut, 2008).

F9.3 A social insurance model aligns the long-term incentives of insurers and their members. Because social insurers face the long-term costs of service decisions, they have the incentives to make sound decisions about early intervention and service quality.

To work properly, social insurance models require that:

- the insurer faces all relevant claim costs;
- the insurer is able to borrow against future cost savings;
- all citizens are members[72]; and
- the insurer has the financial resources to underwrite the risk of claims exceeding premiums over time.

The Government cannot contract away the residual risk of poor outcomes for its citizens, and therefore faces the possibility of having to bail out a failed insurer or otherwise support its members. This limits the premiums that the Government is willing to pay to non-government insurers to a level lower than the

[70] This definition is based on that in Connolly and Munro (1999), with the additional requirement of compulsory membership.

[71] The Netherlands compulsory health insurance scheme is a partial exception (Box 9.7).

[72] This would clearly need a set of supporting rules. For example, babies might be enrolled at birth with their mother's insurer. Similarly, there might be a default insurer for immigrants, or a mechanism to allocate them among existing insurers.

Government's expected future cost. A social insurance system with non-government providers would need to generate sufficient benefits above and beyond direct government coverage to meet this difference.

National insurers

In theory, government could create a single insurance agency with responsibility for social insurance for a wide range of social services. In practice, however, such an organisation could be bureaucratically unwieldy. More practical arrangements involve national insurers, each with national responsibility for a relatively narrow service area (or condition type). Yet such a system can limit the potential for improved service integration and resource allocation across service areas.

The Accident Compensation Corporation (ACC), for example, operates on this basis (Box 9.4).

Box 9.4 **The Accident Compensation Corporation**

ACC is the Crown entity that manages and delivers the Accident Compensation Scheme. The Scheme delivers injury prevention initiatives and no-fault personal injury cover for everyone in New Zealand. ACC collects revenue to pay for its services, through levies paid by employers, employees, and motor vehicle owners and drivers, and also receives government funding (sub. 30).

ACC is effectively contracted to mitigate the effects of injuries and they therefore have an incentive to mitigate efficiently, including by investing now to reduce costs down the track.

> The Accident Insurance Act 1998 also returned all accounts under the scheme to a fully-funded rather than a pay-as-you-go system. (ACC, 2014a).

ACC is investing in early intervention programmes (Box 9.5).

Box 9.5 **ACC early intervention programmes**

ACC spent $34 million on injury prevention in 2013/14 (sub. 30, Appendix One). Over recent years it has conducted education, information, research and training programmes on injury prevention – covering sports, workplaces, farms, and on the road and at home.

ACC adopted a new approach in 2014, covering six areas: falls, work, road, treatment injury, sport, and sexual and family violence. Together these areas represent 85% of new costs to the ACC Scheme.

They also have wider social and economic costs. For example, the Treasury estimates the cost of sexual violence to the economy is $1.2 billion each year.

Other specific prevention programmes include the Ride Forever training programme for motorcyclists, which offers learner, returning and experienced rider training. ACC piloted a "Mates and Dates" awareness programme in eight secondary schools in 2014.

ACC provides levy discounts for employers to join workplace health safety and injury management programmes.

Source: ACC, 2014b; pers. comm. 17 April 2015.

ACC takes actions to reduce the future costs of accident claims (Box 9.6).

Box 9.6 **ACC actions to reduce future costs**

The Commission heard two examples of how ACC reduces the future costs of accident claims through the ways it chooses to interact with the health system.

- Where a health condition is preventing an ACC claimant from getting back to work, but treatment in the public health system is likely to be delayed, ACC may pay for the claimant to receive treatment from private health providers.
- ACC pays for accident victims with suspected spinal injuries to be helicoptered directly to one of two specialist spinal injury treatment units in the country, as early expert treatment can lead to substantially better medical outcomes.

The first example was contrasted with the situation for those clients of employment services who have health problems that prevent them from working. The social services system lacks the incentives and mechanisms for coordination between MSD and MoH to resolve this problem.

The second example was contrasted with the previous arrangements, where such patients might have spent a week or two at a non-specialist hospital before being transferred to a specialist unit.

ACC is an example of a successful social insurer with relatively narrow responsibilities.[73] New Zealanders generally regard this to be a superior way of organising accident compensation.[74]

National insurers in other countries

National Insurance in the United Kingdom dates back to 1911. It has many of the features of social insurance. Workers and employers make contributions towards the costs of specific state benefits. The scheme is tightly integrated with the national tax and welfare systems.

Australian National Disability Insurance Scheme

Australia's National Disability Insurance Scheme (NDIS) is another example of a national insurer covering a particular client group (Chapter 3). The Scheme takes an actuarial approach to make the best use of resources to support people with disabilities over their lifetime:

> The NDIS is insurance not welfare.
>
> The importance of the insurance model to the NDIS is crucial to understand.
>
> Any one of us, rich or poor, can have our life turned upside down by a severe and permanent disability. Individually, the risk of being severely or profoundly disabled before the age of 65 is low, but the consequences for those unfortunate enough to be so can be catastrophic.
>
> But by paying premiums to the NDIS through the Medicare Levy and general taxes, Australians are now sharing the risk and helping each other. Pooling the risks make them affordable for all.
>
> And by operating like an insurance scheme, using rich data to make continual actuarial assessments of costs and effectiveness, the NDIS is able to continually improve…
>
> Because it calculates and seeks to minimise the cost of supporting participants over their lifetimes rather than just twelve months, as part of annual budget cycles, the NDIS is able to invest in people with disability, as well as support them…
>
> Examples to date include a … young man with a spinal cord injury needed the support of two carers per day to assist him in and out of bed and to help with daily activities. Under the NDIS a ceiling track hoist was installed in his home which immediately reduced his dependence, while also reducing the costs of supporting him by more than $1 million over his lifetime. (Bonyhady, 2014b, pp. 9–10)

[73] The Earthquake Commission (EQC) is another example of a state insurer, funded from levies on private insurance contracts.

[74] This is not to say that all New Zealanders are satisfied with the way that ACC has dealt with their claims.

Multiple social insurers

A single insurer with compulsory membership may face the right incentives. Some further requirements apply if there is more than one insurer. An enrolment mechanism is needed to allocate citizens to insurers. Citizen choice – based on the specialisations and reputation of insurers – is preferable to administrative allocation (Chapter 11). A default allocation mechanism may be required for anyone failing to make a positive choice.

In theory, citizens could make a one-time election of their insurer. This would, however, erode the incentives of insurers to take good care of their existing members. It would also be unreasonably restrictive on members whose circumstances change. For example, members form and exit relationships with those who might belong to other insurers, and might reasonably want their whole family to share a common insurer. People also change personal affiliations over time and move within the country, and may wish to choose another insurer that better matches their updated affiliations and location.

Incentives for insurers

Allowing members to change insurers has a potentially negative effect on insurers' incentives. The insurance approach works by providing incentives for insurers to make investments that minimise the long-term costs of providing services for members. These incentives are muted in many private insurance markets. For example, private health insurers lose the benefits of early investments should members choose not to renew their policy. Insurers under-invest, anticipating such non-renewals.

For insurers to face the correct incentives in a multiple insurance models, it is necessary that members:

- can only claim from one insurer; and
- cannot swap insurers, without a system of cross-payments reflecting earlier interventions.

Such an arrangement is a feature of compulsory health insurance in the Netherlands (Box 9.7).

Cream skimming and parking

Cream skimming or *cherry picking* refers to the behaviour of insurers that actively recruit the clients on whom they can make a profit, or avoid those on whom they expect a loss (see Chapter 6).

Parking refers to the behaviour of insurers who leave difficult clients "on their books", doing the minimum to continue receiving a premium yet not enough to achieve a desirable outcome for those clients (see Chapter 6).

Social insurance schemes require careful design to reduce the incentives for these behaviours.

Multiple social insurers in other countries

There are many social insurance schemes in European countries involving multiple insurers. Germany, for instance, has a long tradition of not-for-profit (NFP) sickness funds, often based on professions or on regions. The Netherlands provides a particularly interesting example (Box 9.7).

Box 9.7 **Compulsory health insurance in the Netherlands**

The Netherlands moved to a new system of universal compulsory insurance in 2006, with consumers having a choice of non-government insurers. Insurers compete to provide a legally prescribed benefit package.

The Netherlands previously had a social insurance system with regionally based NFP sickness funds for those on low and middle incomes covering almost 70% of the population. It was funded from a mix of compulsory payroll contributions and general taxation. The rest of the population was free to make their own arrangements with private insurers or by simply paying health expenses out of pocket.

Under the new system, consumers can change their insurer each year. About 4% of consumers do so. Insurers must accept each applicant at a community-rated premium and without excluding coverage of

pre-existing conditions.[75] Consumers also pay income-related contributions into a government-held fund. Regulation includes a sophisticated system of inter-insurer transfers and government subsidies funded by the income-related contributions. Transfers and subsidies match the patient risk pool of each insurer to the funds derived from premiums. Private providers deliver health care (van de Ven & Schut, 2008).

Competition for market share triggered a rapid consolidation of the health insurance market. By 2011, the four largest insurers had a joint market share exceeding 90% (Schut, Sorbe & Høj, 2013). As a result, regulators have concerns about the level of competition. Insurers have so far had little visible impact on raising quality, partly because it has taken time to develop indicators of quality. Insurers have focused more on competing on price to attract clients (Schut, 2010). Waiting times, already low, have been further reduced since 2006 (Schut, Sorbe & Høj, 2013). All health insurers are NFPs.

90% of consumers purchase supplementary health insurance for benefits that are not included in the mandatory basic insurance (van de Ven & Schut, 2008).

Social insurance proposals in New Zealand

In the mid-1980s the Government commissioned a health benefits review. Among the options canvassed by the review was "a regulated, competitive system of health maintenance organisations" offering health insurance (Health Benefits Review, 2006, p. 104). One potential problem identified by the review was that the New Zealand population might support only a limited number of insurance firms. Another was that a move to an insurance model for health services would be a major change, with potential difficulties making the change.

The Government of the early 1990s contemplated health consumers being able to choose "health care plans" from non-government insurers, as an alternative to government-provided services (Box 9.8). This aspect of the 1990s health reform proposals was not implemented. Amongst other problems, the government found it difficult to specify the core entitlements that were needed to underpin the insurance approach. Moving from a system that rationed health services to one that offered entitlements would have made it more difficult to contain costs.

Barrett (1997) reported strong Māori interest in the 1991 proposal for healthcare plans:

> Māori were quick to recognise the opportunity inherent in healthcare plans. A hui held at Takapuwahia, near Wellington, in 1992, established Te Waka Hauora to initiate a Māori healthcare plan. The directors were Mason Durie, Areta Kōpu, and Mānu Paul. There were difficulties with the concept of health care plans, however, and Government abandoned them soon after the health reforms were instigated. Interest in a Māori healthcare plan waned. (p. 3)

Box 9.8 **The 1991 proposal for healthcare plans**

Your health & the public health, a 1991 statement of government health policy, set out a proposal for health care plans that health consumers could choose as an alternative to government health services:

> Once Regional Health Authorities (RHAs), Crown Health Enterprises (CHEs) and community trusts are fully established, people who would prefer a different approach to health care delivery from that offered by their RHA will be allowed to leave it and obtain all their health services through another health care plan of their choice.
>
> - People will be able to take their entitlement to Government funding for health care with them from the RHA to pay the annual fee of their healthcare plan.

[75] An insurer must offer the same premium to each customer for the same type of insurance contract. The premium may vary by the province in which the customer lives (van de Ven & Schut, 2008).

- Those who have higher-cost health needs will take a larger entitlement to funding with them, to encourage plans to take the sick as well as the healthy.
- Health care plans will manage the total health care requirements of their clients. They will be obliged to offer to all their clients affordable access to the same range of services as RHAs. This compulsory range of services, "called core health services", will be specified.
- Health care plans may take various forms. They may provide some health services themselves, but will contract with other health care providers – including CHEs and community trusts – to deliver core health services for their clients.
- Health care plans may specialise in meeting the health care needs of particular groups. Plans may be established around union health centres, group general practices, networks of general practices or multi-speciality groups. Community-based plans might be built around community trusts. Health insurers may wish to move into providing comprehensive managed health care – by establishing plans. Large firms may want to underwrite a health care plan for their employees.
- Iwi authorities and other Maori organisations will be able to establish health care plans concentrating on Maori health needs, addressing Maori concerns about how health services are delivered. This will offer Maori a vehicle for taking greater control over the resources used for health services for Maori.
- To protect clients of the health system, and to contain health care costs, health care plans will operate within limits set by regulation.
- Choice of health care plans will be phased in so as to allow time for development of the skills and experience required for this type of managed care.

Source: Minister of Health, 1991, pp. 61–62.

The Ministry of Health has since looked at social insurance models again, without concluding that they should be pursued in New Zealand (Ministry of Health, 2002). A working group set up by the Ministry concluded:

> Given New Zealand's history and present tax-funded system, there would need to be a very strong case for shifting the health system to a social insurance model. Such a shift would be disruptive and would run counter to the trend of social insurance models [in other countries] adopting more of the features of tax-financed systems. (Ministry of Health, 2002, p. 21).

New Zealand governments have also looked at opening accident compensation insurance to multiple non-government providers, either generally (in the late 1990s) or for workers accident compensation (in 2011) (Reid & MacKessack, 2011).

Summing up: multiple social insurers

There are good reasons for believing that a multiple insurer model would out-perform a single government insurer. Benefits would arise from specialisation to particular population groups and competitive pressure to find innovative ways to increase quality and reduce costs.

Yet implementing a multiple social insurer model needs to address a number of difficult issues. These include defining entitlements in a way that manages overall costs and providing insurers with the right incentives to make sound decisions about early intervention and service quality. Managing the transition from a tax-funded to a social insurance system would also be challenging. Even so, other countries, such as the Netherlands, have managed to successfully implement a social insurance model with multiple insurers (Box 9.7).

F9.4 A social insurance model with multiple non-government insurers has good opportunities and incentives for innovation, and may out-perform models with a single government insurer. Such models face difficult design and transition issues.

A more practical question is what sort of organisations might become non-government social insurers under such a model. Existing organisations that might have the capacity and interest to expand into social insurance include:

- for-profit (FP) and NFP health insurers;
- FP and NFP life insurers;
- iwi; and
- unions.

It is also possible that purpose-built organisations may enter such a market. As noted by the Wise Group:

> There is enormous potential to direct private investment toward social outcomes … Trusted mechanisms and investment vehicles which provide a realistic financial return relative to risk need to be established quickly and efficiently. The appropriate sharing of risk between providers, investors and underwriters is a key to success. (sub. 41, p. 4)

A government-owned and operated social insurer might form a useful role during a transition to a multi-insurer model, and indeed may be a permanent feature should it be sufficiently responsive to member interests.

Q9.1 What non-government organisations have the potential to become social insurers for enrolled populations? What are the potential advantages and problems of a multiple-insurer approach?

10 Service integration

Key points

- Integrated services offer clients a coordinated mix of services that address multiple needs in a timely, convenient and effective way.
- The fragmentation of social services to the detriment of clients with complex needs is a long-standing issue that has proven difficult to resolve despite many attempts. Fragmented delivery is usually a symptom of problems in the way social services are commissioned, and the institutions and contracting practices that support commissioning.
- From a system point of view, the Government should seek the combination of integrated and single-focused services with the highest net benefit. The key question is the extent and form of integration. It is possible to have too much integration, or the wrong kind of integration. Integrating one activity may fragment behaviour elsewhere. Organisations need to weigh up the costs and benefits when deciding the extent of integration.
- Integration is more likely to be beneficial where:
  - services are linked together as a chain of services;
  - clients, families or communities experience clusters of related problems; and
  - the people doing the integrating are willing to work together and trust each other.
- Institutional architecture and service models can support integration in different ways.
  - Provided it is done judiciously, government agencies exercising top-down control over services can merge government agencies, link contracting or service teams, or merge multiple contracts.
  - When government devolves commissioning responsibilities to providers, those providers have more scope to take the lead on integration by, for example, establishing multi-service teams, creating alliances or merging.
  - The "shared goals" service model empowers and facilitates providers to coordinate service delivery.
  - Client-directed service models allow clients to select the best package of services for them. Essentially the client is the service integrator.
- Service integration should be improved by:
  - empowering clients and families to have a say in the way services are packaged;
  - providing opportunities for bottom-up integration;
  - addressing organisational culture and incentives across the social services system;
  - providing wider access to data; and
  - making budget processes more conducive to integrated services.

This chapter discusses the challenge of delivering social services to people with multiple service needs. It discusses how funding, commissioning and contracting arrangements can be improved to ensure that people with multiple needs receive the best mix of services, and to ensure efficient and effective performance at a system level.

10.1 What is integration?

Definition

Integrated services offer clients a coordinated mix of services that address multiple and related needs in a timely, convenient and effective way.

Submitters commented that integration takes many forms:

> It is acknowledged that integration takes many forms, and may include (at one end of the spectrum) a shared plan, or co-location of services, but may also extend to be an integrated delivery approach (with joint planning and joint delivery). (Social Sector Trials, sub. 126, p. 14)

The integration of services should be focused on the needs of the person accessing the services. As Durie noted:

> Integrated development is not simply a bringing together of separate sectors; rather, its starting points are people, balancing individual interests with group values, and the application of consistent approaches to human needs and aspirations. (Durie, 2001, p. 255)

However, integration also needs to address the motivations of people in organisations that provide social services, and enable different organisations to maintain their sense of identity while working in a larger system. In relation to this, Stand Children's Services noted:

> Service integration does not mean that the independent identity and value of each component is lost; rather each type of component or service is a valuable element in the interwoven fabric of care. (sub. 127, p. 20)

When fragmentation is a problem

As noted in Chapter 3, service integration is an important part of making social services more seamless, convenient and effective for clients.

Governments, providers and clients frequently call for more integration in response to the problem of fragmentation in the current system of social services. The strong lines of vertical accountability from providers and departments up to ministers and Parliament divert attention and energy away from horizontal coordination between departments and services (Chapter 4).

Several government reports and inquiry submissions note the problem of fragmented services. The Taskforce on Whānau-Centred Initiatives, for example, noted:

> …lack of coherence between sectors, and even within sectors, has led to multiple separate contracts, each with different reporting requirements and expectations that have precluded an integrated approach to service delivery. (2010, p. 20)

Alzheimers New Zealand's submission considered that in the health sector, "there is very little collaboration or integration in provision at either a private or community organisation level" (sub. 27, p. 4).

Fragmented services are a particular problem where a client needs several services to address their needs. This emerges commonly in the management of chronic disease. Another example is services for older people with multiple long-term conditions.

Stevens, Sanders and Munford highlight the need for multiple services where clients have complex needs, and the challenge of coordination and communication between those different services. As part of this work, a research team recently reviewed summaries of case files from 79 young people aged between 12 and 17 years who were users of New Zealand social services. The review revealed that:

> Multiple agency involvement was evident in many of the case file summaries; families/whānau with more complex needs tended to have more services involved. Some case summaries demonstrated concerted efforts by a range of agencies to work together to provide services to young people and their families/whānau. Several of these examples occurred when integrated agencies (i.e. those who provided multiple services themselves such as family counselling, youth counselling or therapies and advocacy services) became involved with or led interventions with young people. In one example, an agency who provided a young person with residential services and individual therapies and also worked to support the family/whānau, provided monthly emails to the other services involved to communicate progress and to invite services to be in touch with one another. In other cases, justice services contacted young people's workers or their families/whānau to advise them if known offenders were to be released and to work on safety plans together. Several cases demonstrated schools working very hard alongside other services to retain young people in school despite often challenging behaviour and circumstances. (Stevens, Sanders & Munford, 2014, pp. 33–34)

The case file review also revealed that the need for a high degree of coordination is particularly challenging if no one is designated to take the lead:

> [C]ase file summaries also provided examples of agencies disagreeing between themselves over who should take responsibility for providing services to families/whānau and many of these disagreements related to service criteria or thresholds for accepting clients. Analysis of file summaries suggested that such disagreements and strained relationships between services sometimes resulted in a lack of information sharing or miscommunication. Debates about whether young people met particular thresholds for service were commonly held between child protection and mental health services, and between social services and schools or special education services. (Stevens, Sanders & Munford, 2014, pp. 33–34)

F10.1 Coordinating the provision of multiple services to the same client is unlikely to work without agreement on what services the client is eligible for and which provider will take the lead. The lead can come from a service provider, a navigator, the service user or a service professional such as a lead maternity carer.

The Dunedin Community Law Centre's submission provided a reminder that fragmentation in the social services sector is not a new problem:

> The 1982 report from the New Zealand Planning Council, entitled 'Who Makes Social Policy?' noted a 'compartmentalised approach to social policy' in New Zealand. It recommended 'greater interdepartmental cooperation in the exchange of information and in research efforts, which would recognise the inter-relationships and interdependence'. (Dunedin Community Law Centre, sub. 28, p. 2)

John Angus made a similar observation, noting that in his experience "the discourse on coordination, cooperation and collaboration across government departments in the social services sector, in particular around families and children, has gone on in Wellington for at least 30 years" (John Angus, sub. 109, p. 7). Similarly, Te Rūnaka o Ōtākou noted:

> Integration has long been an outcome that is promoted by the public sector. Its failure is noted in the obvious fact that the public sector is unable to model what integration will look like. (Te Rūnaka o Ōtākou, sub. 110, p. 5)

In fact, one can go back almost as far as one likes for evidence of fragmentation in public services (Box 10.1).

Box 10.1 **Timeline of fragmentation concerns**

1910

If there is one thing about which those who have made a special study of the difficult problems connected with the administration of charity are agreed upon it is the need of co-ordination and co-operation. (*The Dominion*, 1910, p. 6)

1920

A brief examination of the present position shows that destitute and dependent children are dealt with in a somewhat haphazard manner. There is no controlling authority, and an utter lack of co-operation and co-ordination even between Government Departments, without including the work carried out by Charitable Aid Boards and the social services agencies of the various Churches. (Officer in charge of Special Schools Branch, 1920, p. 13)

1950

It is safe to say that we of the State services had long regarded ourselves as the only pebbles on the beach, and we knew little or nothing of the good work being carried out by the Salvation Army and other church and civic agencies. David Marsh [an English professor, speaking to a 1950 conference] was provocative and merciless. He made us give a faithful account of what we were doing and what we weren't, and almost literally made us rub noses with every other agency … I found the whole experience most vitalising and I'm sure this early conference set the basis and tone for such [an] understanding and co-operation between social workers in New Zealand as may never have been known. (Lorna Hodder; in McDonald, 1994, pp. 50–51)

c1958

In its own initiatives the Social Security Department found that one family could be visited by a number of social workers from other departments, none of them aware of what the others were doing. (McClure, 1998, p. 148)

1972

There is also a need for a reasonable degree of coordination between the State services and those of voluntary organisations themselves, if only to ensure that money given by the community, either from taxation or from private contributions, is not wasted, and that the manpower available is used to good advantage. But a strict degree of co-ordination is unlikely to be reached, nor would it necessarily be beneficial. (Royal Commission of Inquiry on social security in New Zealand, 1972, p. 380)

1976

The lack of co-ordination in the provision of social services in New Zealand was frequently pointed out to members of the Taskforce … The lack of co-ordination is not limited to interaction between Government departments: it is even more in evidence between departments, local bodies and voluntary agencies. (1976 Taskforce on Economic and Social Planning; quoted in New Zealand Council of Social Service, 1978, pp. 38–39)

F10.2 The fragmentation of social services to the detriment of clients with complex needs is a long-standing issue that has proven difficult to resolve despite many attempts.

Integration as a response to fragmentation problems

Chapter 3 describes integration initiatives that have responded to fragmentation problems. The first initiative is the Canterbury Clinical Network, a consortium of healthcare leaders. The Network has sought to bring together budgets, information systems and staff that previously operated in relative isolation from each other. A second related initiative is the *collective impact* approach to integration, developed in the United States and promoted in many countries as a successful framework for addressing complex social problems. However, Chapter 3 also notes that organisations such as the Wise Group provide integrated services as part of their business as usual.

When separate services are desirable

While clients may experience the separate delivery of more than one service as a problem in some cases, this is not always the case. In some instances a client may receive two services that are quite unrelated, for example support to prepare meals at home and home visits from a health professional to change dressings on a cut (Appendix E). Aside from ensuring that the timing of appointments does not clash, there may be little need for the providers of these two services to coordinate their support. The cost of additional effort to integrate services would not be worth the additional benefit.

One way to distinguish between clients who would and would not benefit from further integration of services is to assign clients in a population into categories of need. This is done by District Health Boards (DHBs) providing support to older people at home. Older people receiving home-based support in Nelson and Marlborough are categorised into different levels of service complexity from *preventative maintenance* (assisting with tasks such as vacuuming) to *complex high* or *complex very high* services (Appendix E). Such complex services may entail multiple services and changing needs over time, calling for integration.

10.2 Deciding the level and extent of integration

Assessing the relative benefits and costs of integration

Service integration has a range of potential benefits and costs depending on the type of integration and how well it is put into place. It is possible to have too much integration, or the wrong kind of integration.

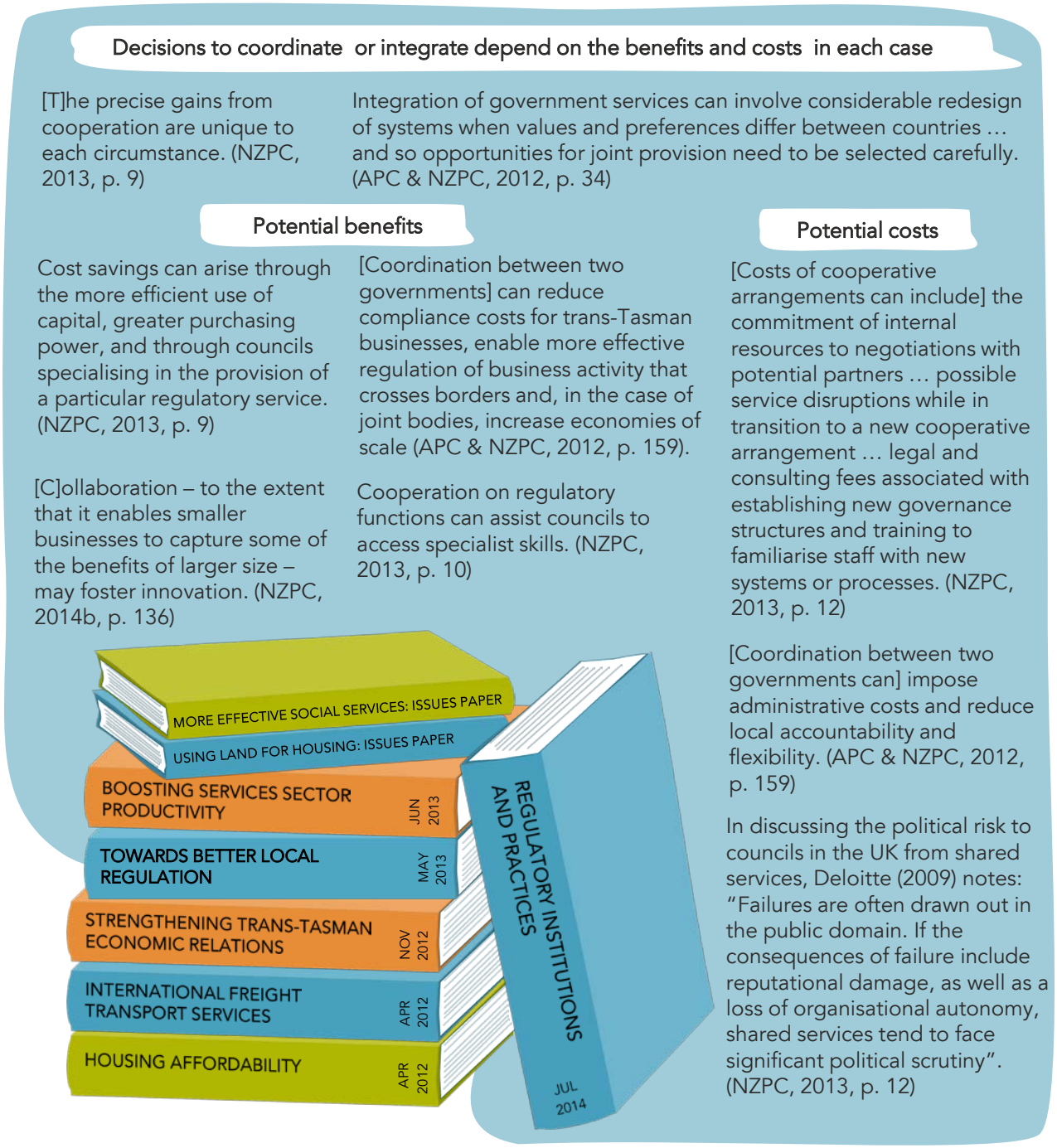
Organisations involved in social services need to weigh up the benefits and costs before deciding on the extent and type of service integration.

The principal benefit of service integration comes in the form of improved effectiveness for clients and the cost effectiveness for the funders of achieving desired outcomes. Integration can increase the efficiency of services, for example by integrating information systems to reduce duplication.

The costs of service integration take many forms. For example, two service providers that agree to work together will need to take time to meet each other and update each other on services to clients. If the two services want to share client information, this may require investing in new information technology (IT) and developing policies to ensure client privacy rights are protected. There are up-front costs in changing performance measures and reporting arrangements to ensure that the Government measures the success of integration and the downstream benefits in terms of better outcomes for clients.

The need to assess the costs and benefits of coordination and integration is a theme that comes through in the Commission's previous inquiries (Figure 10.1). The lessons from these inquiries provide useful insights into the types of costs and benefits that organisations might expect from integration.

Figure 10.1 Lessons on coordination and integration from previous Productivity Commission inquiries



F10.3 Integrating services has costs as well as benefits. The challenge is to weigh these up so as to make a judgement about what type and how much integration is optimal.

When integration is more likely to be beneficial

Previous Commission inquiries provide insights into when integration is likely to be beneficial. First, integration assists in cases where services are linked together as a chain of services (NZPC, 2012a, p. 34). Linked chains of services are readily apparent in health services for frail older people, where the type of service that is required changes as the process of ageing occurs. While initially a frail older person may need assistance at home with household tasks and personal care, if their health declines the person may require more specialised medical care. Integrating the provision of health services for older people provides health funders and providers with an opportunity to enhance the client's experience of continuity of care. It also encourages funders to consider whether complementary services such as fall-prevention programmes may avoid more costly hospital services down the track. The Canterbury Clinical Network (CCN) is a good

example of funders and providers working together to integrate services to achieve this type of benefit (Chapter 3).

Second, integration can be beneficial in instances where clients, families or communities have a "complex set of social needs that typically occur in clusters" (NZPC, 2012b, p. 216). In this case, responding to one problem such as sub-standard housing may be futile if other related social problems such as poor health and poverty are not also addressed.

Third, a lesson from submissions to this inquiry is that integration is unlikely to be successful until the relevant people and organisations are willing to work together, and trust each other. It is hard to measure willingness and trust, but they seem to be essential ingredients for successful integration:

> A study of the experience of mergers and integrated care in Quebec … found that merging organisations could not facilitate integrated care unless they were desired by all players and involved all players in an appropriate way to deal with service problems, otherwise they triggered conflicts and mistrust. (Association of Salaried Medical Specialists, sub. 85, p. 11)

> All successful models are built on the development of trusting, collaborative relationships which take time and effort to evolve. (Bay of Plenty Community Response Forum, sub. 53, p. 3)

> The aftermath of the Canterbury earthquakes saw increased trust and an open disclosure approach taken by the DHB, where providers felt comfortable discussing problems as they arose and learning from errors. This experience needs to be shared nationally, as it shouldn't require a major disaster to elicit collaboration. (NGO Health & Disability Network, sub. 70, p. 4)

> The Children's Team set up in Marlborough in response to the Vulnerable Children Act 2014, is an example of planning and collaboration between providers working well. Relationships of trust are developing amongst the members of this network, as a deeper understanding of participant's roles and activities has developed. (Supporting Families in Mental Illness New Zealand, sub. 49, p. 6)

> Collaboration does work well – for example the approach taken in Marlborough in response to the Vulnerable Children Act 2014. The Children's Team process is getting everyone on the same page really quickly. There is an opportunity to learn from others and information is easily transferred and shared. Innovation can occur in a collaborative setting, where there are relationships of trust in place. (Supporting Families in Mental Illness New Zealand, sub. 49, p. 14)

F10.4

Integration is more likely to be beneficial where:

- services are linked together as a chain of services;
- clients, families or communities experience clusters of related problems; and
- the people doing the integrating are willing to work together and trust each other.

10.3 Deciding how to integrate

Integration as a high-level design issue

Submissions to the inquiry suggest that when fragmented delivery is a problem, this is often a symptom of problems in the way social services are commissioned, or in the institutions and contracting practices that support commissioning.

> The lack of a framework (such as collective impact modelled in the UK) to facilitate a more efficient way of working together has resulted in services being co-located and meeting more frequently but continuing to operate largely independently. (National Committee for Addiction Treatment, p. 3)

> Siloed funding streams continue to be a hindrance to working in integrated and family centred ways where providers are only able to deliver what is specified in their contract despite being well placed to address a range of needs for a family. (Alliance Health Plus Trust, sub. 119, p. 3)

> Over-specification of contract deliverables drives people to remain only within the scope of the contract, which may not encourage integration. For example, the differentiation of primary and

> secondary health spend - it may be better to allow a percentage of spend more frequently to flexibly work in the margins between the two. (Platform Charitable Trust, sub. 45, p. 17)
>
> Getting to the point of implementing service integration is the challenge, with the time constraints put on organisations to consider anything apart from service delivery. (Palmerston North Community Services Council, sub. 125, p. 9)

Chapters 5 and 6 describe the different forms of institutional and commissioning arrangements for social services. These different arrangements can support integration in different ways.

Provided it is done judiciously, government agencies exercising top-down control over services can seek to integrate these services by changing the way government operates. An example of such a change was the 2006 merger of Child, Youth and Family into the Ministry of Social Development (MSD). Government can also change its contracting arrangements to promote integration. For example, MSD has established integrated contracts, where all of the contracts with one provider have been merged into a single contract. Integrated contracts can reduce contract administration costs for funders and providers, but do not necessarily reduce fragmentation for service users.

The need to be judicious arises in part from the difficulties that arise for providers and clients when the Government pursues too many integration attempts at the same time.

When government devolves commissioning responsibilities to non-government organisations, these organisations have more scope to take the lead on integration by, for example, establishing multi-service teams, creating alliances or merging. An example of devolved integration is phase two of the Whānau Ora programme, where commissioning agencies purchase a mix of existing services or commission new services (Appendix C).

The "shared goals" service model empowers and facilitates providers to coordinate service delivery. An example of this model is health alliances between DHBs, Primary Health Organisations and other local health providers. Chapter 3 discusses the CCN's use of this model.

Service models embodying client choice allow clients to select the best package of services for them. Essentially, this means the client is the service integrator (Chapter 11).

Providers may also pursue mergers on their own initiative. Green Cross's recent acquisition of Access HomeHealth was motivated in part by Green Cross's objective of providing more integrated healthcare (Green Cross Health, 2014). Richmond Services NZ Ltd, a mental health services provider, and Recovery Solutions, a provider of addiction and social-housing services, have announced they are merging on 1 July 2015 to form an NGO that provides mental health, addiction, disability and social-housing services across New Zealand.

The drawbacks of ad-hoc integration initiatives

A common phenomenon is governments undertaking multiple and overlapping integration initiatives, resulting in confusion, frustration and strain on scarce resources.

John Angus considers that there has been "a succession of new cooperative initiatives with aspirational programmes and even more aspirational names" (John Angus, sub. 109, p. 7). The available evidence supports that view. A review of ministerial speeches and media announcements from 2000 to 2014 identified 27 separate government initiatives that were partly or wholly aimed at integrating social services or improving coordination, collaboration and cooperation (Figure 10.2). This amounts to roughly two new initiatives each year.

Figure 10.2 Government integration initiatives announced since 2000

Source: Ministerial speeches and media releases on beehive.govt.nz; Family and Community Services, n.d.

Running more than one integration initiative is problematic when these initiatives overlap. If two initiatives are attempting to integrate the same social services, there is the potential for two competing timeframes for integration, two sets of acronyms to master and turf wars between groups running the initiatives.

These problems are evident in practice. Whānau Ora is one of many programmes attempting to integrate service delivery and use a navigation/lead practitioner approach (Appendix C). Children's Teams and Social Sector Trials are two other prominent examples. It was put to the Commission that if the government is going to take a joined-up or "whole-of-government" approach, it ought to be one approach in one place. In relation to Social Sector Trials, the Minister for Social Development recently noted:

> With a view to adopting permanent structures, over the next twelve months we will take a close look at what is effective in the trial areas and analyse how the trials can work alongside other initiatives such as Children's Teams and Whānau Ora, in the changing social sector landscape. (Minister for Social Development, 2015a)

Te Roopu Waiora Trust's submission takes the opportunity to find humour in the situation:

> Minister Adams recently announced the formation of a high level ministerial group to coordinate every intervention in the family violence space using a single point of reference. However with housing, health and disability sectors taking a similar approach on specific and critical issues, the need to then coordinate coordination becomes apparent. (Te Roopu Waiora Trust, sub. 97, p. 6)

F10.5 A common phenomenon is governments undertaking multiple and overlapping integration initiatives, resulting in confusion, frustration and strain on scarce resources.

Getting the design right

The solution to achieving integration will not usually lie in imposing another integration initiative from the top down. It will usually lie in choosing the right institutional design for the problem the service is aimed at, and for the commissioning organisation to choose the right service model. Shared goals, managed markets and client-directed service models have favourable incentives for realising the optimal extent and form of integration.

R10.1 Governments and service-commissioning agencies should consider whether service fragmentation is a symptom that could be most effectively dealt with by changing their institutional-design and commissioning choices.

Efficient boundaries

The government agencies with responsibility for delivering social services have each defined geographic boundaries for their field administrations, as suited to their own service-delivery. Policing areas, for example, likely have little relation to DHB district boundaries. The coordinator for the Hutt Valley Justice Sector Project – a collaboration between five agencies – commented that the project was made much easier by the rather unusual coincidence of agency boundaries in the Hutt Valley.[76] The project would have been much more complex in other locations – and may not have been realisable in some.

Q10.1 Should the government seek to align the geographical boundaries used by its social delivery agencies for defining service responsibilities? What are the advantages and disadvantages of aligning boundaries?

10.4 Five design themes for improving integration

Involving clients and their families in service design and delivery

Chapter 11 argues that there is good evidence to suggest that empowering clients to make choices about the services they receive can improve the responsiveness of service providers to client needs and improve

[76] Driven by the strong geographic features of the Hutt Valley.

client wellbeing. It outlines different ways of providing clients with greater choice, including client-directed budgets and voucher systems.

To the extent that clients are able to purchase their own services through personal budgets, these clients should also be able to choose the best mix of services to suit their needs. As one submitter noted:

> Self directed supports such as Enabling Good Lives … allows people to integrate their funded supports into one package, and use the combined funding to create a seamless and highly effective service for themselves or their family. With the model that Manawanui run, it doesn't matter where the funding comes from – it can be combined into one budget and allow complete integration in a self directed and self determined manner. Currently 75 of our clients access services through multiple funders, for example: MoH and ACC; MoH and Ministry of Social Development funding or Enabling Good Lives. This has become an example of successful service integration across funders. In its role as Host Provider, Manawanui is instrumental in managing those relationships and funding interfaces on behalf of the IF client. (Manawanui, sub. 8, pp. 7–8)

In a similar way, the government's Whānau Ora initiative enables whānau to set the outcomes for their interactions with service providers and, through the whānau planning process, increase their exercise of choice about what services they access or other actions they will take to achieve those outcomes (Appendix C). Whānau also benefit from navigator staff working directly with whānau on planning their aspirations and helping them to access services. Evidence from the Commission's case study of this initiative suggests that navigators are instrumental in integrating services for whānau. The Social Sector Trials pointed to the value of a staff person responsible for coordinating a client's services and working across different service providers and agencies (sub. 126).

In addition to involving clients and their families in the delivery of services, these people can be consulted as part of the design of services. This provides an opportunity for clients and families to identify aspects of a service that could lead to fragmentation.

Chapter 6 discusses client consultation and recommends that commissioning organisations should involve clients and their families in service-design decisions.

Providing opportunities for bottom-up integration

Submitters have argued that bottom-up integration of services is effective in harnessing client and provider motivations, resources and information:

> Where integration does appear to have produced benefits (in terms of quality of care and patient satisfaction, rather than any economic effects), it has tended to involve programmes initiated by clinicians and often focused on particular patients groups or specialties, such as through clinical networks. (Association of Salaried Medical Specialists, sub. 85, p. 12)

> SST leads have noted the following key factors as important success factors: local ownership, community buy-in for the concept, fit for purpose integration, and "by community, for community". Where local opportunities are identified and there is integration support locally and centrally, there have been positive outcomes noted. (Social Sector Trial, sub. 126, p. 14)

There are examples of successful integration where the Government has consciously stepped back from taking a controlling role, even though the integrated services are government programmes. Mental health and addiction services provider Wise Group reports on a different sort of merger in its submission to the inquiry. This merger is between two government-funded programmes:

> Over the last three years Te Pou and Matua Raki have merged. Both these programmes were contracted separately under the Ministry of Health, Te Pou to lead on mental health and disability, Matua Raki to lead on non-addictions. The senior leaders from both organisations worked together to carefully plan how both entities would merge and gain benefits from each other's experience as well as how to communicate this to stakeholders. (Wise Group, sub. 41, p. 15)

The Wise Group noted that "this merger was instigated by the leaders of our programmes, not the funder, and this helped make the transition smoother" (p. 15).

The danger of relying on government leadership in integrating services is that the Government collectively tends to introduce multiple and overlapping initiatives to improve integration, which causes confusion and undermines credibility. As Te Roopu Waiora Trust noted:

> From the perspective of whānau, sector based coordination or locality case management merely shifts service fragmentation to another level and serves no real purpose. With Whanau Ora offering a similar approach through navigation, the aim of all these initiatives is to manage whanau through an array of complex, fragmented service interventions. The focus and resource investment is therefore channelled towards navigation or coordination; instead of addressing the reason why such approaches are needed. (Te Roopu Waiora Trust, sub. 97, p. 6)

In light of these problems, the Government should adopt a cautious approach to instigating programmes of service integration. A better approach often is for those commissioning services to devolve responsibility to clients, navigators or service providers to decide on the extent and form of service integration.

R10.2 The Government should adopt a cautious approach to directing service integration from the centre, and should instead focus on ensuring that institutions and commissioning arrangements provide opportunities for bottom-up integration.

Addressing organisational culture across the system

A prominent theme from submissions was the importance of organisational culture in integrating services. Several submissions pointed to aspects of government and provider culture.

> In our view, the success of the Government's change to funding for outcomes with integrated contracts depends on achieving a complete change of culture in the funding agencies and the providers of Family Start. This will take some time and good, consistent leadership. (Myra Harpham & Jennifer Coote, sub. 106, p. 16)

> Within health and social care services, organisational leadership is fundamental to achieving a shift in culture that will lead to effective integrated models of commissioned care. The focus of change efforts must be on improving outcomes and not on changing organisational structures, however where structural change is required, commissioning agencies must be able to support/resource those changes to occur. (Alliance Health Plus Trust, sub. 119, p. 3)

> The very particular and unique cultural makeup of our community is also drawn to the attention of the Productivity Commission. This gives us a richly varied community, committed to collaboration and the common good, which is also significantly underprivileged in terms of income, housing, qualifications and employment – in short, we score very highly in all the factors that are measured in the Deprivation Index. (South Waikato Social Services Collective, sub. 7, p. 4)

A sense of why culture is important to integration can be gleaned from the Commission's investigation of organisational culture in its previous inquiry into regulatory institutions and practices. In this inquiry, the Commission noted that culture can be likened to a "psychological contract" that lays out the unwritten rules that govern how people within an organisation are expected to act, think and feel and how they can expect others to act, think and feel. In this way, culture plays a key role in the internal interaction of staff and in how the organisation adapts to changes in its external environment (NZPC, 2014b, p. 78).

A barrier to internal coordination of staff is the presence of strongly different subcultures:

> Subcultures can lead to a "silo mentality" where members become inwardly focused and detached from the organisation's core principles, values and strategy. Such silos can restrict the flow of information through the organisation, reduce organisational flexibility and create an external perception that the regulator is inconsistent in its interpretation of regulations. Silos can also create unhealthy tension between groups within an organisation. (NZPC, 2014b, p. 88)

It is plausible that the "silo mentality" that submitters detect among government departments is as much a matter of governmental subcultures as it is a matter of divisions in budgets and lines of accountability. Submissions also point to differences in culture between government agencies and providers.

To the extent that differences among subcultures in the social services system impede integration, the remedial measures the Commission identified for regulators could equally apply to the social services system.

- Ensure that corporate values and mission are effectively communicated to all areas and office locations. Use locally relevant examples and stories to communicate the corporate values and mission to regional staff. This will increase the extent to which they are perceived as relevant (rather than just something coming out of "head office").
- Foster a "professional culture" by promoting common language and processes throughout the organisation.
- Encourage teams to share their perspectives, assumptions and pre-existing beliefs with others in the organisation. This will help reduce misconceptions and overcome misunderstandings arising from the use of different language.
- Expose middle managers and staff to different working environments by mixing teams and encouraging short-term "job-swaps".
- Provide opportunities for formal and informal interaction between teams and staff from different locations.
- Make a conscious effort to include regional groups in significant discussions impacting on the success of the organisation. Promote a sense of inclusion for these groups by devoting time to visit regional offices.

R10.3 Efforts to integrate social services should be attentive to organisational cultures that promote or impede integration, and should address problems through remedies, including promoting a common language and values across the system and providing opportunities for formal and informal interaction between organisations.

Providing wider access to data

As part of investing in a better data infrastructure and data sharing for social services, the Government should assist providers to access and use operational data to improve service integration. Greater access to information enables providers to identify where services overlap, understand the extent of service use for different client groups, and test the efficacy of different degrees and forms of integration.

Submitters noted the importance of planning and information systems in facilitating integration. Careerforce made the case for more joined-up workforce planning to identify workforce skills that cross sectors (sub. 50). IT system improvements included a shared care record and the ability for different providers to securely message each other about a patient (Pharmacy Guild of New Zealand, sub. 11), national and local outcome indicators, a data dictionary, standardised datasets, and system and service performance measures (The Impact Collective, sub. 130), and streamlined online databases and directories of health and social service providers (NGO Health & Disability Network, sub. 70).

Likewise, the Commission's case study of home-based support found that service coordination benefits from ensuring different service funders and providers are well informed about other services (Appendix E).

Chapter 8 argues that, among other benefits, better use of linked cross-agency data would support better integrated, tailored services for clients. It recommends work on the design of institutions and processes to develop a comprehensive, wide-access, client-centred data infrastructure accessible to commissioning agencies, providers, users and researchers of social services.

R10.4 The Government should assist providers to access and use operational data to improve service integration as part of investing in a better data infrastructure and safe data sharing for social services.

Making budget processes more conducive to integrated services

Chapter 5 notes that governments typically favour narrowly specified budget appropriations, prescriptive service specifications and close, top-down control. The drawback of this approach from an integration perspective is that it can reduce coordination between agencies and limit flexible adaptation to client needs and local circumstances. If, on the other hand, funding is devolved to a commissioning agency, a trusted provider or to clients themselves – with enough flexibility – then they can use it to purchase integrated services "at the coal face". Chapter 5 discusses budget appropriations (Section 5.5).

10.5 Fragmentation – seeing the symptoms and tackling the causes

Fragmented delivery is usually a symptom of problems in the way social services are commissioned, and the institutions and contracting practices that support commissioning. The origins often lie with the top-down, centralised commissioning of social services and the siloed nature of many government agencies. Public-sector accountability requirements, aversion to political risk and narrowly specified budget lines all contribute to the problem. Organisational cultures and professional and data silos are also barriers to more integrated approaches.

In the Commission's view, too many attempts to improve integration simply attack the symptoms and not these causes. The first place to look to improve integration is often the chosen, or historically inherited, set of institutional and commissioning arrangements. Commissioning agencies need to scrutinise these arrangements to assess whether other service models would be more conducive to integration. The models that do this are usually more devolved. They empower clients (or those acting on their behalf) to choose the best mix of services for them. Further support for integration needs to come from access to the right data, and the funding and accountability arrangements.

This chapter has suggested five ways in which the system can be tailored to improve integration:

- empowering clients and families (and/or their agents) to have a say in the way services are packaged;
- providing opportunities for bottom-up integration;
- addressing organisational culture across the social services system;
- providing wider access to data; and
- making budget processes more conducive to integrated services.

11 Client choice and empowerment

Key points

- Chapter 6 highlighted the need for commissioning organisations to carefully consider the model of services delivery best suited to the characteristics of the services and its client base. In every model, choices are made about:
  - *what* services to deliver;
  - *who* will deliver the services;
  - *when* the service will be delivered;
  - *where* the service will be delivered; and
  - *how* the service will be delivered.
- Depending on the model, clients may have relatively little or relatively more control over these *core choices*.
- There is good evidence that, for some types of social services, empowering clients to make core choices significantly improves their wellbeing. Yet, many services in New Zealand operate under top-down control, in which *in-house provision* or *contracting out* are the dominate service models (Chapter 5).
- Changes to existing arrangements are required if clients are to be empowered to make core choices and if the choices of clients are to influence service quality and the efficiency of the system.
- Shifting the power balance from the organisations that commission and deliver social services to clients would achieve better outcomes. For this to occur, client choices need to influence the allocation of public money to providers. Government departments must ease their grip on the reins of central control to allow the necessary power shift.
- There are services for which choice is not an appropriate model of service delivery. These include services involving the coercive power of the state and where services are being provided to people experiencing psychological trauma, or acute physical trauma.
- Where choice *is* appropriate, government agencies need to invest time and resources into designing and implementing the mechanisms. In particular, clients must be able to make informed choices, and government agencies must give providers the flexibility to meet the diverse needs of clients.
- Designing and implementing a practical and efficient choice mechanism requires a deep understanding of alternative design options, and of the incentives and fiscal implications of choosing one option over another. For example, to avoid cream-skimming, payments to providers need to reflect the complexity of individual client need.
- Shifting to a client-directed service model will require a significant change in mindset for many officials and providers. Evidence shows it takes time (and resources) to learn how to work under new systems, and to develop structures and processes that fit the new way of working.

This chapter looks in detail at the client-directed service models (CDSMs) introduced in Chapter 6. The chapter begins by explaining different types of choices and then explores the potential benefits of

expanding client choice through CDSMs. The chapter outlines the concerns expressed to the Commission about expanding client choice before exploring the available evidence around these concerns. Finally, the chapter looks at services for which expanding client choice may be desirable.

11.1 Types of choices

Chapter 6 introduced seven generic models of service delivery: in-house provision, contracting out, managed markets, trust, shared goals, and client-directed budgets and vouchers. In all these models, *core choices* need to be made concerning:

- *what* service to deliver;
- *who* will deliver the service;
- *when* the service will be delivered;
- *where* the service will be delivered; and
- *how* the service will be delivered.

Of course, the core choices are not necessarily independent. For example, who a client chooses as their service provider can be influenced by when or where the service is available. Further, different components of the social services system will face different types of core choice. For example, Parliament (led by the government of the day) uses the budgetary process to choose the level of funding allocated to broad areas of social services (such as health, education and social development).

This chapter will address the core choices that impact the interface and experience that a client has with the social services system.

Figure 11.1 Examples of core choices

11.2 Who is best placed to make core choices?

The social services system will work best when people with the right information, incentive, capability and authority make core choices (Chapter 2). And when there is enough flexibility in the system to give people real choice between alternatives.

Information

Clearly, no one person or group within the social services system has all the information necessary to make the system run efficiently. Clients know their own preferences and circumstances, but without assistance of professionals may be unaware of their treatment or services options. Professionals understand the service and treatment options, but have little information about client preferences or the combination of treatments that will work best for specific individuals. Government officials know the outcomes they wish to achieve, but lack information on whether the services they fund are achieving these outcomes.

Incentives

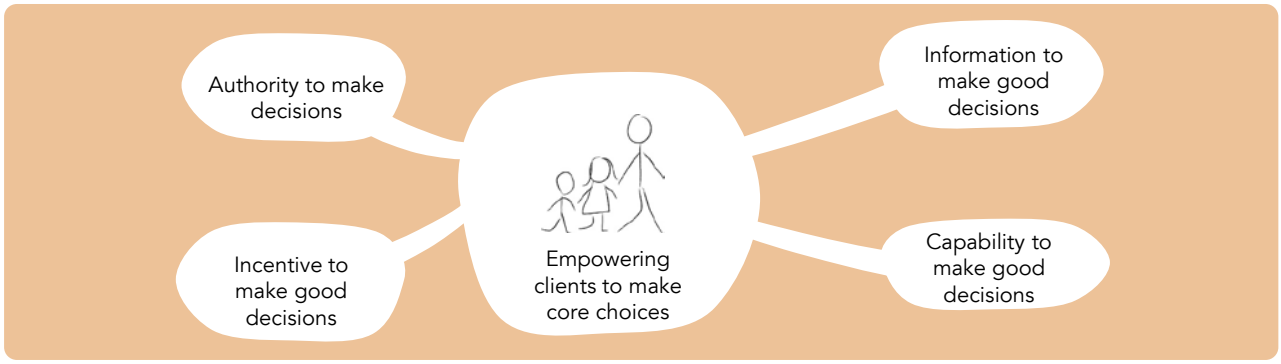
A complicated set of rules (institutions) constrain and shape the conduct of government officials, providers and clients. These rules include both formal and enforceable rules (such as regulatory requirements and contractual provisions) and informal rules built on social and cultural norms of behaviour.

The social services system will work best when the incentives created by these institutions align with the objectives of meeting the client needs in an efficient, effective and timely manner. Where clients are empowered to make core choices, they have a strong incentive to make decisions that meet this objective. However, while providers and government officials often have the best interests of the client at heart, they can face multiple incentives, at least some of which can conflict with the objective of meeting client needs (Chapter 5).

For example, a government agency may face pressure to minimise the political risk arising from the provision of a service. The agency may respond by seeking to minimise political risk through specifying the core choices in their contracts with providers (Chapter 4). Providers, faced with tightly-specified contracts, may have to provide a service in a manner that meets the conditions of the contract but not the needs of the client. The client, in turn, may be discouraged from using the service and their needs may go unmet.

Appendix F provides a detailed economic analysis of the factors impacting the incentives of government officials, providers and clients.

Figure 11.2 Elements needed for good decision making



Capability

Individuals with the information and incentive to make core choices also need the capability to do so. The capability of some clients to make core choices will be limited. For example, someone in severe psychological distress may, in the short-run, not be in a position to make core choices. Other clients may need a carer or family member to assist them in making choices.

The need for specialised skills can also affect the capability to make core choices. For instance, a heart surgeon will be more capable of selecting a surgical procedure than a patient.

Importantly, there is a difference between someone having the information and capability to make core choices in the interest of the client, and their having the incentive to do so. For example, a medical

specialist may have an incentive to recommend surgery at a private clinic rather than a public hospital, even though to do so would place the client under considerable financial pressure.[77]

Authority

Having the information, incentive and capability to make core choices means little without the authority to do so. In the social services system, the institutional setting determines who has the authority to make core choices.

The Commission has heard of cases where providers have the information, incentive and capability to supply a service that meets a client's needs, but contractual obligations prevent them from doing so. For example, there are instances in which contracts specifying home visits have conflicted with client feedback that home visits would increase the client's risk of physical abuse. This situation illustrates the problems that can arise when the authority to make core choices is made by parties with incomplete information.

11.3 Who makes core choices in New Zealand's social services system?

The party making core choices varies greatly between different social services. Some services operate under a client-directed model of service delivery where clients (or their representatives) choose the types of services they access and how the service is delivered, including who delivers the services and when.[78] Examples include early childhood education (ECE), general practitioners and some disability support services.

An important characteristic of CDSMs is that government funding follows the choices made by clients. For example, parents choose the ECE centre they send their child to, and funding from the Ministry of Education follows the choices made by parents. Parents also choose the days of the week that their child will attend ECE. Similarly, government subsidies for visits to general practitioners follow the client's choice of doctor (who). Clients also choose (subject to availability) their appointment time and, in some cases, they may have the option of treatment at home (ie, house calls) or at a medical surgery. Section 11.6 provides a more detailed discussion of CDSMs.

However, many services in New Zealand operate under top-down control, and are provided using the *in-house provision* or *contracting out service model* (Chapter 5). For simplicity, this chapter refers to these approaches as *agency-directed*. Client choice (if it exists) is limited to choosing between alternative providers. Once a client has chosen their provider, the services they receive are limited to those specified in the provider's contract with the Government.

In other instances, clients have limited choice of provider because the market will only support one or a small number of providers.

> Commonly, for many categories of disability services, there are a limited number of providers – often only one – in particular localities and specialties and the incentives for others to enter the market are often weak, or virtually non-existent. Thus, disabled people often have little or no choice of provider. (New Zealand Disability Support Network, sub. 47, p. 3)

Volunteers New Zealand highlights the limited choice of providers in smaller centres.

> The focus on client choice assumes there are multiple providers available for a particular service. In many places there is no choice or service users have to travel to something out of the region, even for very basic services. As a corollary, smaller centres are likely to generate cooperation through necessity. They may develop models of service delivery that are quite different from larger urban cities. (Volunteering New Zealand, sub. 86, p. 13)

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[77] In such a situation, profession, culture and ethics provide an alternative incentive to act in the interest of the patient. Even so, the example is illustrative of conflicting incentives that exist in the system.

[78] The concept of client-directed care should not to be confused with "person-centred therapy" (a form of talk-psychotherapy developed by Carl Rogers in the 1940s and 1950s).

Table 11.1 Who typically makes core choices?

Core choice	Who typically makes core choice
who provides a service	Client has choice where alternative providers are operating; however, the availability of alternatives can be limited in the case of isolated communities and highly specialised services. Providers generally choose when staff will be available and therefore which professional or carer a client will work with.
what services are provided	Government agencies most commonly choose the services provided (eg, through specifying services in contracts or legislation). Clients often have choice within a menu of services selected by the government agency or service provider.
when a service is delivered	Typically, the government agency or service provider selects when services will be available. Services are often scheduled to give clients a choice of pre-determined times.
where a client receives a service	Typically, government agencies or service providers select the physical location for delivering the service. Clients may have choice where there is more than one provider or where providers operates from multiple locations.
how a service is delivered to a client	Typically, service providers choose how they deliver services. However, government contracts can limit provider choice (eg, by specifying, say, the number of home visits that a provider must make).

11.4 Problems with who currently makes core choices

The social services system will work best when the core choices are made by people with the information, incentive, capability and authority to choose the combination of services (and service delivery methods) that best meet the needs of clients.

Problems with who currently makes core choices include the following:

- authority to make core choices often rests with those that lack information on client needs;
- core choices are not made in a coordinated manner across the system, leading to overlaps and inconsistency;
- institutional incentives rarely reward (and can work against) making core choices that meet the client's needs; and
- a lack of authority to make core choices disempowers clients.

Authority and information

With some notable exceptions, New Zealand's social services system is dominated by the use of the top-down control approach. Under this institutional architecture, government agencies retain authority for choosing what, where and how services are delivered. These choices are then formalised in contracts with social service providers.

However, client needs are not homogeneous. Rather, needs are derived from a complicated interaction of personal circumstance, socio-economic conditions and cultural backgrounds – factors that clients and their families/whānau (rather than government officials) are best placed to understand.

Government officials cannot possibly hope to understand the complex and dispersed needs of thousands of clients. As such, while one-size-fits-all contracts will meet the needs of those whose circumstances and needs align well with the choices made at the centre, they commonly fail those with more complicated needs. Healthcare of New Zealand Holdings Ltd (HCNZH) noted:

> Service models defined by funders are inevitably constraining in their attempt to define the best solution. Inevitably a system wide approach to design where the funder defines the service to be

> provided leads to some people being allocated services as a solution that don't meet their needs as well as another potential option or configuration. (sub. 51, pp. 6–7)

Flexible contracts (eg, contracts for outcomes) address this problem to some degree by placing core choices closer to the client. However, even with flexible contracts, authority is still in the hands of those with less information about the client's needs than the client (ie, providers). Chapter 4 discusses this issue.

F11.1 Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the *what*, *who*, *when*, *where* and *how* of service delivery.

Core choices are not made in a coordinated manner

Chapter 10 discussed how government agencies commission services in separate administrative silos, with each agency having authority over core choices for specific services. The result is that agencies make core choices for different services independent of each other. Chapter 10 also noted that people often face interlocking and mutually reinforcing problems, and that solving one problem in isolation often makes little difference, as the remaining problems simply cause it to re-occur. Haldenby (2014) provides a clear example:

> …imagine a person out of work, in debt, and depressed. Debt drives their depression. Depression keeps them out of work. Depression thrives on unemployment. Unemployment drives their debt. It is a vicious cycle. Unless public services can take a coherent approach to tackling all three problems at the same time, they make no progress, and money. (p. 21)

Evidence suggests that approaches that address a client's various needs in an integrated way lead to better quality care. For example, models that integrate mental health and primary care lead to better depression outcomes for people with medical co-morbidities (Narasimhan et al., 2008).

The problem of making core choices in isolation further compounds the inefficiencies that arise when choices are made with inadequate information.

Little reward for meeting client needs

One drawback of the current agency-directed approach is that in many instances good providers do not benefit directly from attracting additional clients, and poor providers do not bear the direct costs of losing clients. On the contrary, under some block-funded contracts, good providers bear the cost of servicing clients who leave a previous provider.[79] At the same time the poor providers see their costs decline, particularly if the client's needs were difficult or costly to meet. This reduces the incentive for providers to be innovative and responsive to client needs.

Of course, consistently poor providers run the risk of not having their contracts renewed (an indirect cost) and the Government can reward good providers with additional funding in the future (an indirect benefit). However, in practice these indirect incentives are less reliable than when clients directly choose providers because it is difficult for commissioning agencies to observe the quality of service provision (see Chapter 6). Also, funding decisions are frequently based on political and bureaucratic processes rather than historical performance (see Chapter 4).

F11.2 In-house provision and contracting-out models can provide little reward for providers that are responsive to the needs of clients. Under some contract structures, providers may be disadvantaged by providing a better service.

[79] In this context, a block-funded contract is one where providers receive a fixed payment, irrespective of the number of clients they service.

Clients are often disempowered

The current allocation of core choices often forces clients to be passive recipients of services rather than active participants in decisions that impact their lives. This can be very disempowering.

As people start to exercise choice, they increase control over their lives. Such control has intrinsic value, particularly for poor or socially marginalised individuals who would otherwise lack the resources or status needed to negotiate better services (Chapter 3). Inspiring Communities et al. noted:

> …focusing not just on what social services are delivered but HOW is key to improving social service outcomes. Key elements of the 'how' include engaging and working with people in empowering, strengths based ways to enable them to become agents of their own change rather than be passive recipients of services. (sub. 58, p. 2)

F11.3 The allocation of decision rights under in-house provision and contracting-out models often casts clients as passive recipients of services, rather than active participants in decisions that impact their lives.

11.5 Benefits of empowering clients to make core choices

Increasing client choice can have benefits at both the individual and system level, a point widely acknowledged in submissions to the inquiry. For example, the Palmerston North Community Service Council noted:

> We don't all want to go to the same supermarket, so why should clients be expected to all go to the same provider. Different services often come from a different cultural perspective which is important for the client…providers can offer a different level of service, eg. Some budgeting services offer a budgeting service where you can obtain advice on how to manage your own budget and yet there are other budget services that will actually take over your finances and manage them for you whilst resourcing you to take back the financial management of your finances at a later date. Both have advantages and are necessary in different circumstances. (sub. 125, p. 12)

Similarly the Wise Group commented:

> Clients need choice. They need to be able to choose between providers based on culture, the services they deliver and whether it best meets their unique needs. Where and who a client receives services from is usually decided by a government agency and client choice is not readily supported. (sub. 41, p. 25)

At an individual level, vesting the authority to make core choices with clients changes the traditional power relationship between clients and the institutions that design and deliver social services, and provides a mechanism through which clients can negotiate with, influence and hold accountable institutions that affect their lives (World Bank, 2001). The Palmerston North Community Service Council highlighted the link between client empowerment and choice.

> Provider diversity brings about empowerment and choice. In any sector, when this is taken away it disempowers the client. (sub. 125, p. 14)

For disabled people, the quest for greater choice has occurred in parallel with a quest for greater social inclusion and the pursuit of human rights (see Appendix D). The importance of choice to client wellbeing should not be under-estimated. The submission from Manawanui highlights the empowering impact of choice in disability services.

> The choice, control and flexibility offered by self direction enables and empowers people to live ordinary and fulfilling lives. Barriers to normality often experienced by people and families with disabilities are removed through self direction and this enables them to make very real community contributions. The downstream effects of this are positive outcomes for individuals, families and entire communities. (Manawanui, sub. 8, p. 1)

Empowering clients to make core choices can enable a better fit between client needs and the service they receive (Duffy, 2007). The better fit occurs because in most cases the client (rather than government officials or providers) will have the:

- best understanding of their individual needs and circumstances;
- strongest motivation to get the services they require;[80]
- best chance of integrating government-funded services with support from family, friends and whānau;
- most complete understanding of any relevant risks; and (consequently)
- best understanding of the combination of services that are most likely to work for them.

F11.4 In many instances clients, rather than government officials, have the best understanding of their individual needs and the combination of services they require. Clients are also often in the best position, with the support of family, friends and whānau, to integrate the services they receive.

A better fit between services and client needs means more public money would be spent on the services that clients value, and less on those they do not. This is important because opportunities to improve wellbeing go unrealised when funding flows to low-value uses.

> The experience in the disability sector has shown that the ability to take a client-directed budget and design a bespoke solution from scratch can allow clients and the people who support them to achieve outcomes that would be impossible under a traditional model of procurement, thereby improving value for money. (Healthcare of New Zealand Holdings, sub. 51, pp. 6–7)

New Zealand Disability Support Network notes the link between choice and being able to tailor services to the needs of individuals.

> Client-directed budgets, in being person-centred and allowing choice, empower people with disabilities and their families so that it becomes easier to tailor support to individual needs and goals. Implicit is a recognition that individuals, in fact, usually know what is best for them and that it is a positive, enriching experience for them to be in better control of their own lives. (sub. 47, p. 10)

Unsurprisingly, clients will often require help to ensure they make informed choices. Indeed, uninformed choices can have serious negative consequences for clients.

F11.5 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery leads to a better fit between client needs and the services they receive. A better fit means that more public money is spent on services that clients value, and less on those they do not.

At a system level, empowering clients puts pressure on providers to be responsive to client needs and to lift the quality of the services they offer. All things being equal, clients will choose providers of high-quality services over providers that deliver low-quality services. Of course, what constitutes "high" quality and "low" quality can be contentious (see New Zealand Educational Institute Te Riu Roa, sub. 40).

While the desire to retain clients can motivate quality improvements, choice can impact the quality of services in more subtle ways. For example, providers may notice patterns in the choices made by clients, such as the low uptake of a particular service. This may prompt the provider to investigate the low uptake and modify the service accordingly. In this way client choice provides an important feedback loop on service performance (see Chapter 6).

[80] This may not be the case for services that involve the coercive powers of the State.

Similarly, choice can strengthen the incentives on providers to look for innovative ways to deliver services and provide a mechanism through which both provider and client can experiment with, and learn from, trying different approaches to service delivery (see Chapter 6).

Finally, choice can be a catalyst for integration of government services. For example, CDSMs that pool funds from across different government agencies can allow interlocking and mutually reinforcing problems to be addressed in a holistic manner.

However, such integration is not an inevitable benefit of choice. Rather, integration is highly dependent on the institutional framework that supports the provision of choice. Chapter 10 provides a detailed discussion of service integration.

F11.6 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to service delivery.

F11.7 At a system level, giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery creates an incentive for providers to be responsive to client needs and to lift the quality of the services they offer.

11.6 Different ways to empower clients with core choices

There is growing international interest in the use of CDSMs to social service provision. CDSMs can differ greatly in their design elements, that is:

- the payment mechanism;
- the level of authority that clients have over the core choices;
- the breadth of the choices available to clients; and
- the level of administrative and decision support that client's receive.

While precise classification is difficult, CDSMs can be broadly grouped under two headings: client-directed budgets and voucher systems.

Client-directed budgets

Client-directed budgets are referred to by several names, including personal budget, individual budget, and individualised funding (IF). Service needs are expressed in terms of a fungible unit (typically hours of service or dollar value of service) and pooled to form the client's service budget. Typically, the client works with a professional to develop a service plan based on the outcomes the client is looking to achieve. In some systems, government agencies monitor adherence to the plan (monitored approaches). In others, plans are a non-binding tool aimed at helping clients to make good choices (assisted approaches). The Ministry of Health (MoH)'s IF programme is an example of this approach.

Cash payments are a form of client-directed budgets where the clients receive payments in lieu of publically provided services. Typically, cash–payment schemes give wide discretion around how the clients can use funds. Clients employ people or purchase services themselves.

Voucher systems

Under voucher systems, clients receive subsidised access to a defined service (European Union, 2013). The client is able to access the service through providers approved or licensed by the Government. The Government provides a physical coupon for services (explicit voucher), pays a provider directly for services (implicit voucher) or reimburses the client for expenses on approved services (reimbursement voucher).

11.7 Client-directed models in New Zealand and internationally

Various forms of CDSMs operate in New Zealand. However, many of these give clients few real choices around the service they receive. A notable exception is the MoH IF programme, which has operated since the early 2000s. This programme gives (eligible) disabled people the option of developing a personalised plan of services. People receive assistance in developing their plan from an intermediary known as an *individual funding host*. Box 11.1 provides an overview of the IF programme. Appendix D provides more detail on the history and performance of the programme.

In 2011, a first-principles review of government support for people with disabilities recommended significant changes in the way services were delivered. Among other things, the report *Enabling Good Lives* recommended empowering disabled people and their families with greater choice and control over the services they receive. Importantly, the report recognised the need for "cross government individualised/portable funding" (Minister for Disability Issues, 2011, p. 6).

In September 2012, the Ministerial Committee on Disability Issues agreed to the approach set out in Enabling Good Lives (EGL) and a vision and long-term principles for changing the disability support system. The following year a demonstration of the EGL approach commenced in Christchurch. A review of this demonstration released in 2014 indicated wide support for the EGL approach and for expanding the level of choice and empowerment of clients (see Appendix D).

A second EGL demonstration in the Waikato kicked off in 2013 with the appointment of a leadership group consisting of three local forums representing providers and disabled people and their families. In the 2014 budget the Government confirmed funding for the demonstration ($3.8 million over two years).

While the demonstration is in its early stages, there are signs that agencies have learnt some lessons from the Christchurch EGL demonstration. For example:

- the demonstration will be open to a wider group of disabled people and cover more services;
- the responsible government agencies are considering alternative approaches that will reduce the reliance on existing government systems and processes; and
- the disabled persons' organisations have a closer involvement in the design of the programme.

Box 11.1 **Ministry of Health's individualised funding programme – how it works**

Individualised Funding (IF) is available for home and community support services. These are services that assist people to live at home and include:

- help with household management, such as preparing meals, washing clothes and house cleaning; and
- help with personal care, such as eating, dressing and getting out of bed.

People wanting to use IF have their needs assessed via the Needs Assessment and Service Coordination service. These services are provided by organisations (generally referred to as NASCs) contracted by MoH to:[81]

- faciliate the needs-assessment process aimed at determining a person's eligibility for ministry-funded support services;
- coordinate the services, which includes:
  - giving information about service options that are available to the person;

[81] All NASC providers contracted with the MoH are members of the *Needs Assessment and Service Coordination Association* – a NFP organisation for people that manage NASCAs.

  - planning and coordinating the supports in a support plan; and
  - allocating some Disability Support Services; and
- manage budgets: NASCs must manage the Ministry-funded Disability Support Services in a fair and cost-effective way.

The NASC determines whether a person is suitable for IF. The NASC then refers those that are suitable to the person's preferred *IF host* – organisations contracted by MoH to help clients use IF. The hosts assist the person to develop an Individual Service Plan (ISP). The client chooses the type of assistance that the host will provide. Hosts are paid a percentage of the package that a person receives. The more services the host provides, the higher the percentage.[82]

After the plan is established, the disabled person receives the specified service (usually via a separate organisation that is on contract to MoH). People using IF are required to keep records of the services they use and report to hosts on a fortnightly basis about their use of those services.

Unlike traditional support services, IF support is allocated on a yearly rather than weekly basis. This gives clients greater flexibility as they are able to "bank" unused hours for use at some time in the future.

International examples of client-directed service models

There are a number of international examples of CDSMs. These range from cash payments for the purchase of home-care disability services, to client budgets for aged-care services, to vouchers for services and equipment. Table 11.2 provides a brief summary of some of the more notable programmes used overseas. In addition, there is a description of the Australian National Disability Insurance Scheme in Chapter 3.

Table 11.2 International examples of client-directed service models

Country	Programme development	Description
United Kingdom	Cash payments introduced in 1988. Direct payments introduced from 1997. Individual (social care) budgets (IB) piloted 2005–07 and subsequently rolled out. Personal health budgets (PHB) piloted 2009–12, with plans for further rollout.	The Independent Living Fund supports adults with disabilities who live at home. Funding was expanded under the direct payments policy to include younger people, people with mental health conditions and the elderly. For people who have long-term care needs. Plan to have all council-funded service users and carers on PHBs by 2015. PHBs are piloted mainly for individuals with a range of long-term conditions. IBs are usually used to purchase mainstream services, employ personal assistants and pay for leisure activities; they are sometimes used for a wide range of one-off purchases. PHBs are used to employ personal assistants or purchase goods or services that contribute to health goals in a personal plan. IBs are not used to pay for GP services or emergency health services.
Belgium	Personal assistance budget (PAB) introduced 1997 in Flanders region. Personal gebonden budget piloted in 2008.	As long as they apply before they are 65 years old, assistance is available to people with any major long-term impairment (disability). A PAB can be used to employ a personal assistant and purchase services from a choice of providers. At least 95% of the budget must be used to pay salaries.

[82] There are currently three levels of service. The percentage of the package a host received is determined by which level of service a person selects.

Country	Programme development	Description
France	Cash for care *(L'allocation personnalisée à l'autonomie)* piloted in 1994–95; made national in 1997. Expanded in 2002.	For people aged over 60 who need care because of a physical disability or mental illness. Reduces the burden on care homes. Increases the individual's independence and autonomy. Funds can be used to purchase specific care packages, and/or to employ a personal assistant.
Germany	Cash payments for care introduced in 1995 and extended in 2008 (to include mental illness). Personal budgets piloted 2004–2008, with intention to start roll-out in 2008.	For all people who "frequently or to a considerable extent" need care because of a physical, psychological or mental illness or disability during their daily activities, or for a period of at least six months. Funds are used to purchase transport, nursing, assistance at workplace, leisure activities, therapy costs, support equipment, etc., and services provided by health insurance/care insurance, when needed regularly and on a supplementary basis. Cannot be used to pay GP costs.
The Netherlands	Personal budgets introduced in 1996. Scope and eligibility significantly scaled back from 2012.	For people who have a disability, chronic illness, psychiatric problems or age-related impairments. By 2014, only those who would otherwise have to move into care or a nursing home will be able to keep/apply for a budget. Funds can be used to buy personal care for help with daily living, nursing care, support services (eg, day-time activities), and short stay and respite care for short holidays/weekends. Cannot be used to pay for alternative treatments, medical treatments, or treatment by allied health professionals.
Austria	Cash payments introduced in 1993. Covers home care and institutional care, and covers the whole population. All state support for home care is through cash allowances.	For those aged over 3 who need long-term care (requiring 50+ hours of care a month), due to physical disabilities and/or mental illness. A medical assessment of need is done. The programme promotes autonomy, choice and market-driven developments. Largely used to compensate family members for informal care.
US	Cash and counselling piloted 1998–2002. Some states developed client-directed care for adults with serious mental health conditions. In 2012, the majority of states started to offer client direction through Medicaid programmes. Some states allow for client direction in non-Medicaid elderly assistance programmes and for some veterans services.	For older people and people with disabilities who need home and community-based long-term care. Some programmes support individuals with serious mental health problems. Cash and counselling varies between programmes. Can employ personal assistants and purchase care-related services and goods. States control the range of services and equipment that can be purchased. Some programmes include purchasing some elements of healthcare, such as skilled nursing and long-term rehabilitative therapies. Some programmes include clinical recovery services for people with serious mental health conditions.
Canada	Started in 1997, individualised quality of life pilot launched in Toronto. Rolled out from 2000. Similar initiatives in other provinces.	For people with developmental disabilities who need support. Funds are used to purchase disability-related supports. Funds cannot be used for costs related to medical supplies or equipment, home renovations, electronic equipment or leisure, recreation and personal/family costs.
Australia	Individualised funding introduced in Western Australia in the 1990s; Victoria introduced Individual Support Packages in 2003 and direct employment in 2012. National Disability Insurance Scheme (NDIS) is currently being implemented.	Client-directed disability support through planning and personalised funding is most advanced in Western Australia and Victoria, although elements of such programmes have been introduced throughout Australia. See Chapter 3 for details about NDIS.

Source: Gadsby, 2013; Cortis et al., 2013; Productivity Commission.

11.8 Submitter concerns about client-directed service models

This section highlights some of the concerns raised by submitters about the use of CDSMs. The following section looks at the evidence and experience with CDSMs in New Zealand and internationally to assess whether these concerns are justified.

The Council of Trade Unions (CTU) highlights an overarching concern about the need to understand the implications of moving to CDSMs.

> In the United Kingdom it is the "choice model" that has been increasingly favoured and embedded - though elements of the other models remain. The New Zealand situation is similar with policies and practices leaning towards the "choice model". But there are a multitude of issues that have not been analysed or fully understood about this so-called "choice model". We are very concerned about moving in this direction without a full appreciation of the implications of this model. (sub. 103, p. 5)

"Client-directed service models reduce service quality"

One of most commonly expressed reservations of submitters was the perception that CDSMs result in a decline in service quality. For example, the submission from the New Zealand Educational Institute Te Riu Roa commented on the link between client-directed budgets and the quality of education services.

> Education already has client-directed budgets in that a very large proportion of funding to centres and schools is roll-based. When a child moves to a new service or school, they take their funding with them. This creates a high level of competition between providers, which can undermine the provision of high quality education… (sub. 40, p. 30)

HCNZH emphasised the risk involved in allowing clients to employ people without adequate training.

> …client-directed budgets can encourage employing informal staff from the person's own networks, where this happens there is a risk that people performing key functions/roles are not adequately trained to perform their duties. (sub. 51, p. 7)

The Otago Youth Wellness Trust questioned the ethics behind placing choice above quality.

> The focus should always be on Provider quality and effectiveness. Diversity or "choice" for choice sake that knowingly results in multiple Providers delivering poor quality services is unethical. (sub. 73, p. 12)

"Some people can't make choices"

Some submitters were concerned that many clients are not able to make choices due to the nature of their illness or impairment. For example, the Spectrum Care Trust Board noted:

> People with an intellectual disability are less able to do that and require additional supports. People who have communication difficulties are less able to articulate their needs. Many people with an intellectual disability are not able to rationalise their funding or prioritise or even fully understand the range of services available. For the same reasons, those affected by acquired brain injury, dementia and related illnesses are less likely to benefit from individualised funding and are more exposed to exploitation by those managing funds on their behalf. (sub. 90, p. 8)

Carers New Zealand expressed similar concerns.

> Our main reservation about individualised funding is that it works best for the "able-disabled" who are in a good position to benefit from the empowerment opportunities available. Where the person with a disability or illness is not in a good position to benefit from the empowerment opportunity (e.g. they are a child, or have an intellectual disability) the responsibility for spending the funding and arranging the care tends to fall on the family. (sub. 71, p. 4)

"Client-directed service models make vulnerable people more susceptible to abuse"

Some submitters expressed concern that CDSMs expose vulnerable clients to abuse. The submission from HCNZH is typical of the views expressed to the Commission:

> …the risk of abuse (emotional, physical and financial) exists in relation to both formal services and the types of informal arrangements that exist around client-directed budgets. In the case of client-directed budgets people can be vulnerable to abuse because there are no formal checks and balances of the quality of the support/service they are receiving. If family members are both the beneficiaries of

> funding (employees) and the key people supporting decisions there is a significant conflict of interest that can lead to abuse. (sub. 51, pp. 6–7)

Aged Care New Zealand expressed similar concerns.

> If control was put into the hands of a carer or family member, there is the risk that the carer or family member may abuse their position. (sub. 100, p. 5)

"People don't want to shop around for providers"

A number of submitters commented that clients simply do not want to shop around for providers and that the benefits of switching providers may be low relative to the costs (such as filling in paperwork or breaking relationships with trusted professionals).

New Zealand Disability Support Network noted:

> Clients with, say, an intellectual or sensory disability – or even those who just lack confidence – may be at a particular disadvantage in making good choices and even when someone else (such as a family member) acts as an agent for them, there can be problems. Often, it may come down to trial and error but, nonetheless, it can be cumbersome, awkward and distressing for a disabled person to change to another provider, assuming there exists the option of an alternative provider. (sub. 47, p. 4)

"Client-directed service models can lead to people becoming isolated from their community"

There was concern in some submissions that CDSMs can result in clients interacting less in the community, leading to isolation and an associated loss of wellbeing.

> Individualisation or personalisation can lead to isolation for the person by disconnecting them from group supports and the person being seen in isolation from their family/community. (Inclusive New Zealand, sub. 32, p. 6)

"Client-directed service models place financial pressure on providers"

Many providers voiced concerns about the financial implication of CDSMs. For example, Inclusive New Zealand noted:

> Providers have no guarantee of income. This makes it difficult to plan, ensure that adequate staffing ratios are maintained and that the organisation can run efficiently and sustainably. There is still a need for core or baseline funding. (sub. 32, p. 6)

The submission by Workbridge goes further, suggesting that without core funding some providers risk not being financially viable under client-directed budgets.

> With client-directed budgets and outcome-based contracts, providers have no guarantee of income. This makes it difficult to plan, ensure that adequate staffing ratios are maintained and that the organisation can run efficiently and sustainably. There is still a need for core or baseline funding…With the lack of funding increases in the past 10 years for Vocational Services in the disability community many providers are using their reserves to provide services, are close to insolvency within the next 1-2 years and cannot accommodate client-directed budgets and outcome-based contracts without an increase in core or baseline funding. (sub. 102, p. 11)

"Client-directed service models are more open to fraud and misuse of funds"

Some inquiry participants have expressed concerns that CDSMs are more prone to fraud and misuse than traditional agency-led approaches. For example, the Association of Salaried Medical Specialists noted that programmes overseas have had "problems with fraud" (sub. 85, p. 32).

"Client-directed service models are harmful for workers"

While supportive of the general intent of client direction, some submissions cautioned that CDSMs can have adverse impacts on workers.

The submission from the CTU noted:

> We support the concept of the consumer having choice in the employment of their support worker but advocate for it to be managed through an organisation that is accountable for managing the employment and the health and safety requirements (which are significant) to the level of the Home and Community Support Standards and other relevant legislation. (CTU, sub. 103, p. 19)

The CTU went on to comment that "[t]he development of home-based services in providing more choice and reducing institutionalisation has been at the expense of the workforce" (p. 16).

The Public Service Association (PSA) expressed similar views.

> The PSA supports the intent of this programme but we are deeply concerned about the approach taken in New Zealand where the person with a disability is the employer of staff. This approach:
>
> a) Diminishes the skills and contributions of the disability support workforce
>
> b) Undermines meaningful workforce planning and development and national standards of service delivery
>
> c) Places considerable responsibility on the person with a disability to manage the obligations of being an employer
>
> d) Will increase insecurity in employment and expose the workers to health and safety risks (we note the exemption being considered under the Health and Safety Reform Bill). (New Zealand PSA, sub. 108, p. 17)

The submission from HCNZH also noted the risks to staff.

> The key risks associated with client directed budgets include … unsafe employment practices – where the client is responsible for employing staff there is a risk that they will not be a good employer in terms of ensuring a safe workplace and meeting their legal obligations to their employee. (sub. 51, pp. 6–7)

11.9 What do evidence and experience suggest?

This section examines the evidence around the advantages and disadvantages of CDSMs.

Any discussion of "evidence" will inevitably raise questions around the methodological credibility of the studies examined, and the type of information that the Commission considers credible evidence. This section draws its evidence from:

- systematic literature reviews conducted by academic researchers within universities;
- programme evaluations commissioned by government agencies both in New Zealand and overseas; and
- the Commission's review of articles in peer-reviewed journals and published reports.

Collectively, these sources cover over 100 journal articles and published evaluation reports. Submissions to the inquiry and anecdotal evidence collected during engagement meetings also inform the section.

There are clearly some shortcomings in the available research on CDSMs. Arksey and Kemp (2008) highlight a number of methodological issues within the existing literature.

- Studies often focus on a specific programme, so that meaningful comparisons with traditional agency-led approaches cannot be made.
- Many studies suffer potential selection effects in that clients self-selected to be part of the programme under review. Few studies involved randomised assignment of clients into treatment and control groups.
- Studies commonly measure client perceptions and experiences rather than more objective assessments of programme performance.
- Most studies assess the success of a programme at a point in time, rather than over the longer term.

It is also important to note that the literature covers programmes with different designs and different supporting institutions. This makes comparisons difficult. Notwithstanding these methodological difficulties, the Commission believes that a lot can be learnt from the available literature on CDSMs.

Most clients report higher wellbeing and satisfaction with services

The strongest conclusion from the available literature is that CDSMs improve client satisfaction with services, feelings of wellbeing and quality of life (Gadsby, 2013; Gadsby et al., 2013; Crozier et al., 2012; Bennett & Bijoux Ltd, 2009).

Evaluations of CDSMs in the United States, England and Australia have reported increased levels of satisfaction after moving from agency-directed to client-directed models of support (Alakeson, 2008; Alakeson, 2010; Gray et al., 2009; Shenet al., 2008; Benjamin et al., 2000; Carlson el al. 2007; Fisher & Campbell-McLean, 2008; Foster et al., 2003; Gordon et al., 2012; Tyson et al., 2011; Wiener, Tilly, & Cuellar, 2003; Forder et al., 2012).

Further, comparisons of clients directing their own services with those receiving agency-directed support show that clients directing their own support usually:

- are happier with the availability of services they receive (Carlson et al., 2007; Cook et al., 2008);
- feel they are making more progress towards meeting their goals (Cook et al., 2008); and
- are more likely to feel that their needs are being met (Alakeson, 2007).

Glendinning et al. (2008) conducted an evaluation of the IB pilot programme across 13 pilot sites in the United Kingdom. The evaluation found:

- mental health service users "reported significantly higher quality of life than those in the comparison group" (p. 17); and
- physically disabled adults "were significantly more likely to report higher quality of care" (p. 18).

The same study, however, suggested that for some clients, choice may create anxiety and lower wellbeing.

> Information from the qualitative interviews with service users and their proxies indicated that many older people supported by adult services do not appear to want what many of them described as the 'additional burden' of planning and managing their own support. (p. 27)

Notwithstanding this "additional burden", Gadsby (2013) concluded that:

> [t]he overall success of personal budget initiatives in terms of improving individuals' satisfaction with their care, and aspects of their quality of life, is established in international research. (p. 17)

F11.8 International evidence suggests most clients experience an increased level of satisfaction after moving from agency-directed to client-directed models of social services provision.

Positive health outcomes are reported, but the evidence is weak

While some studies have reported positive health outcomes (Stainton & Boyce, 2004; Carlson, et al., 2007; Fisher & Campbell-McLean, 2008; Cooper, 2010), there is only weak evidence that CDSMs lead to better health outcomes than traditional agency-directed services (Gadsby, 2013; Gadsby et al., 2013; Crozier et al., 2012).

Conversely, there is little or no evidence in the published literature to suggest that CDSMs lead to *worse* health outcomes than agency-directed services. Indeed evaluations in the United States comparing client-directed and agency-directed approaches to home care suggest little difference in health outcomes (Benjamin et al., 2000; Wiener et al., 2007; Alakeson, 2010; Benjamin et al., 2007; Brown et al., 2007).

These results are consistent with evaluations undertaken of the PHB programme in England. Forder et al. (2012) found that the programme had no (statistically) significant impact on health status or mortality rates, and that clients did not report significant differences in health-related quality of life compared to the control group.

F11.9 Some studies have reported positive health outcomes when clients shift from agency-directed to client-directed service models. However, in general the evidence for such health improvements is weak.

Most clients can and do exercise choices given the opportunity

The available evidence suggests that in most cases, with the right tools and support, clients are indeed able to exercise choice when given the opportunity. Inclusive New Zealand suggests that disability is not an obstacle to exercising choice.

> We are concerned about the statement in the paper that 'some clients may have medical conditions or disabilities that limit their ability to make informed choices… services can be designed to allow choices to be made on their behalf.' Disability support providers have worked hard to ensure that people using their services are able to make informed choices. It is our experience that most people are able to make their preferences known when they are communicated with in the correct way, and a range of good practices, such as Circles of Support, have been developed. (sub. 32, p. 6)

Many programmes allow clients to nominate a representative to assist them in making choices, or to choose on their behalf. Mahoney et al. (2007) highlight this as one of the six critical issues involved in designing CDSMs. In reference to the US Cash and Counselling Programme they noted:

> In the course of the original experiment, states learned that many individuals who were capable of expressing important preferences but not able to manage an individualized budget on their own (e.g., persons with some developmental disabilities or persons with Alzheimer's disease) could profit from the flexibility afforded through the Cash and Counselling model if they were allowed to appoint a representative to assist them. Others, especially among the elderly, just felt more comfortable having a representative at least at the start. Whereas states have made good progress developing criteria for when representatives are needed and how they should be monitored, these policies need to be evaluated and refined. (p. 557)

F11.10 If good practices are used, most clients of social services programmes can and do exercise choice when given the opportunity.

There is little evidence that client-directed service models lead to a decline in quality

Available research does not support the idea that CDSMs reduce service quality. While anecdotal evidence of quality decline is available, the quality of support provided under CDSMs has largely been evaluated as at least as high as under agency-directed models (Gray et al., 2009; Kim et al., 2006; Young & Sikma, 2003) and in some instances is greater (Gaynor et al., 2012).

F11.11 There is little evidence to support the claim that client direction leads to a decline in the quality of services that clients receive.

Fraud and misuse of funds is no higher than agency-centred approaches

The most notable (and commonly cited) instances of fraud have occurred in the Netherlands. While in monetary terms the losses from fraud in the Netherlands were not large, they generated considerable media attention and public debate (van Ginneken et al., 2012).

In New Zealand, available evidence suggests that fraud and misuse of funds are no greater (and are probably less) than under tradition agency-led arrangements. Manawanui Incharge noted:

> … Our statistics indicate that clients are more likely to underspend against their allocations than overspend…The fraud rate with all of the self directed approaches in NZ is 0.4%. This is extremely low compared to some international estimates that put potential fraud at 5%… we believe this is even more positive when traditional service provider fraud is considered as a comparison. (sub. 8, p. 9)

F11.12 There is little evidence to support the claim that client direction is any more or less open to fraud or misuse than agency-directed models of social service delivery.

Client-directed service models can be more expensive than agency-led models

Results from overseas evaluations tend to suggest that CDSMs can be more expensive than agency-directed services (Alakeson, 2010; Barczyk & Lincove, 2010). A commonly cited reason for the additional cost is that clients using client-directed programmes tend to use their full entitlement, while clients of agency-directed services did not (Alakeson, 2010).

This finding is consistent with early financial evaluations of the MoH's IF programme conducted in 2010. The evaluation found that allocations for clients who moved from agency-led to client-directed funding increased by an average of 14.9%. The report suggested that the increase was largely due to clients having their needs reassessed as higher than they were previously. Some overseas studies have deemed this the "wood work effect" where people whose needs were not being met by traditional services were able to receive a greater level of support through personal budgets, but with the results that budgets increased. Rather than abandon the approach, governments in Sweden and the Netherlands subsequently applied tighter assessment and eligibility criteria and used more stringent financial accounting.

Another cost is the set-up of introducing CDSMs.

> …individualised funding models require significant administrative investment, particularly upfront. In both Australia and New Zealand the costs associated with individualised funding were underestimated; forcing host agencies to work to unrealistic schedules… (Wise Group, sub. 41, p. 16)

There is evidence from the Netherlands, however, that:

> …the value of a personal budget is 25 per cent lower than the equivalent cost of care in kind, on the grounds that there will be fewer overheads … On top of this, each year 10-15% of budget holders repay some of their annual allocation… (Gadsby, 2013, p. 20).

Gadsby also made the point that the movements towards establishing PHBs across the world:

> …have been supported by the belief that they could be an effective means of curbing or even driving down the costs of health and social care … and by enabling a reduction in the use of expensive residential or acute care. (Gadsby, 2013, p. 20).

This is difficult to establish in practice. An evaluation of the IBs in England concluded that there is some evidence that IBs are more cost effective in achieving overall social care outcomes (Glendinning et al., 2008). A clear message from the literature is that measuring cost effectiveness is very challenging due to the lack of robust and consistent data. Essentially the jury is out on whether CDSMs are cost effective over the long term.

F11.13 Available evidence indicates that client-directed models can be more expensive than agency-directed models, especially if they are not well planned and executed.

Impact on the workforce of client-directed service models is mixed

Most studies of CDSMs primarily focus on the outcomes for clients and their families. As a result, there are few studies that look specifically at the impact of CDSMs on workers. Moththorpe et al. (2011) captures many of the problems with the available evidence:

> …few studies looked in depth at the employment relationship from the perspective of care and support workers, especially where the employee was a family member... At best, employment relationships and the significance of them were marginal considerations in many studies and reports; others had small samples or were unclear about their sources of evidence. Furthermore, there was some difficulty in establishing whether some authors meant family members giving informal care, or paid care and support workers, when using the term 'carer'. (p. 202)

The evidence that does exist presents a mixed picture. For example, some people worry that CDSMs reduce demand certainty for existing providers and therefore create a disincentive to invest in worker training and career development. On this point Cortis et al. (2013) noted:

> Evidence to substantiate concerns about falling demand for formal care services in the United Kingdom has been mixed... The evaluation of the Individual Budget pilots found, for example, that take-up of personal budgets by some groups was low, with older people the least likely to ask for changes in their services. For these groups, care organisations retained significant roles as service providers... Where individual budget holders continued with pre-existing service arrangements, services needed to adapt only by invoicing service users rather than local authorities... As such, there was little effect on the workforce. On the other hand, service providers which did experience a loss of service users found it frustrating as they had invested in recruiting and training service delivery staff, who were no longer required... This last effect, of course, is likely to have wider negative impact, in that loss of investment can act as a disincentive to further investment in staff. (p. 25)

Further, some international studies show that client-directed budgets have increased workforce uncertainty and led to reduced security of tenure and pay (Rubery & Urwin, 2011, Cunningham & Nickson, 2010, Wilberforce et al., 2011). Conversely, Leece and Peace (2010) reported that some care workers prefer, and have benefited from, client-directed budgets as they allow them more time to undertake tasks, making them feel less rushed and under pressure.

Similarly, early studies of personal assistants in the United Kingdom found conflicting evidence of reduced pay and conditions but higher job satisfaction as well as greater user satisfaction (Carr & Robbins, 2009). These studies commonly attribute low pay rates to programme design and shortfalls in funding. Clients employing personal assistants reported that the total amount of money received through direct payments was insufficient to meet their support needs and this resulted in diminished training and education opportunities for personal assistants (Adams & Goodwin, 2008).

In the United Kingdom, workforce changes include increased direct employment of personal assistants by clients and greater demand for the services of intermediary organisations (for profit and not-for-profit), especially assessment, planning and brokerage expertise. Cortis et al. (2013) also noted changes to the mix of skills required by frontline workers.

> …individualised funding in the UK was also perceived to change the mix of skills required from frontline workers. This has included requirements for higher level health skills in the direct care workforce; more multi-skilling across health, housing, leisure and employment issues among those in frontline roles; and a downgrading of trained and qualified social care practice to focus on personal advocacy, brokerage, risk assessment and navigating among multiple through the service system... (p. 27).

In Victoria, a small trial of the impact of the direct employment approach showed that participants with previous professional or other experience, such as bookkeeping, accounting or business ownership that helped them perform the employer role effectively, were likely to benefit most from this approach (HDG Consulting, 2010).

Appendix E discusses workforce conditions in home-based support for older people.

The Commission is interested in hearing from people with first-hand experience working under CDSMs, such as the IF programme operated by the MoH. The inquiry team is also interested in hearing about any specific studies into the impact of CDSMs on workers in New Zealand.

F11.14 There is limited evidence on the impact that client-directed budgets have on workers. Available evidence suggests that impacts will be highly dependent on the design of the programme and on the level of government funding available.

Q11.1 The Commission is interested in hearing from people with first-hand experience working under Individualised Funding and Enabling Good Lives. Have any specific studies been undertaken into the impact of these two programmes on workers?

Conclusion from the evidence and experience

Table 11.3 provides a summary of what the literature says about the concerns raised in section 11.8.

Table 11.3 Literature on concerns about client-directed service models

Concerns	Conclusions and themes from literature
CDSMs reduce service quality	There is little evidence to support that CDSMs lead to a reduction in service quality. There is strong evidence to suggest that CDSMs increase wellbeing and client satisfaction with services. There is little evidence to suggest that (objectively measured) health outcomes are any better or worse using CDSMs than using agency-directed approaches.
Some people cannot make choices	There are ways to assist clients with communication impairments to make choices. Evidence suggests that the use of representatives allows people to benefit from choices even when they are not able to communicate all preferences.
CDSMs open vulnerable people up to abuse	Measures to protect vulnerable clients are vital under any approach to the delivery of social services. There is little evidence to suggest that the risk of abuse is higher or lower using CDSMs than using agency-directed approaches.
People don't want to shop around for providers	While data is scarce, there is some evidence to suggest that when given the choice clients select different services (or models of delivery) than previously available under agency-led models. People are most likely to value choice when they see real differences in the services that providers offer. There is generally strong uptake of choice once it is made available to people.
CDSMs can lead to people becoming isolated from their community	There is little evidence to link client direction to increasing or decreasing levels of social isolation.
CDSMs are more costly for government agencies	There is some evidence that the budgetary costs of CDSM can be larger than alternatives. This is particularly evident when assessment and eligibility criteria are poorly designed, and where there is latent demand in the system.
CDSMs are more open to fraud and misuse of funds	Overseas programmes have experienced incidences of fraud. In New Zealand there is little evidence to suggest the instance of fraud is higher under CDSMs than under agency-lead models. There is some evidence to suggest that fraud is lower under CDSMs in New Zealand.
CDSMs are harmful for workers	Available evidence of the impact on the workforce is limited and shows mixed results, reflecting the different client-directed models used.

11.10 Which additional services may benefit from client choice?

This section looks at the types of services that may benefit from increasing client choice.

Submitter views on where client-directed service models have potential

In the inquiry issues paper published in October 2014, the Commission asked participants which client-directed models were suitable for CDSMs (specifically client-directed budgets). Subsequently, many submissions to the inquiry suggested areas where the client-directed approaches may be suitable.

There was wide, but not unanimous, support for extending the use of client-directed budgets in New Zealand. The services most commonly mentioned in submissions and during engagement meetings were:

- disability support services;
- home-based support of older people;
- respite services;
- family services (eg, counselling and budget services); and
- drug and alcohol rehabilitation services.

Other suggestions include preventive healthcare services (such as vaccinations) and housing services. Yet, several submitters warned against viewing CDSMs as a panacea for improving services. For example, the NGO Health and Disability Network noted:

> Client-directed budgets or 'individualised funding' should not however, be seen as an overarching solution that is applicable to all clients and families. It works best and will only really work for individuals and families who are willing and competent to put the time and effort into making arrangements independently to 'purchase' the services they require. Individualised funding, while having many advantages, transfers significant responsibilities from the funder to the individual; e.g. getting value for money, assuring quality of service, etc. (sub. 70, p. 6)

These submitters suggested that clients should have access to a continuum of options that will be needed in many cases.

Some submitters highlighted services they felt were not suitable to client-directed budgets. The New Zealand Disability Support Network suggested that client-directed funding is not appropriate in cases where people are convicted of an imprisonable offence.

> A few services, however, are not suited to client-directed budgets. These would include behavioural support services, as well as services to support the administration of the Intellectual Disability (Compulsory Care and Rehabilitation) Act 2003. The Act provides for the compulsory care and rehabilitation of individuals with intellectual disabilities that have been either, i) found unfit to stand trial or, ii) convicted of an imprisonable offence. There are two different levels of care – Secure Care (hospital level or community based) and Supervised Care (community based). Care is in designated secure or supervised facilities, respectively, and the care recipient is required to remain in the designated facility, other than for periods of approved leave. (sub. 47, p. 10)

Submitters also stressed the need to consider the immediate circumstances facing a client and their psychological state.

> The psychology of clients is also an important consideration. The time when clients decide upon services is frequently in the early days of meeting Blind Foundation criteria which is stringent enough that the sight loss is severe at this point. Sight loss is a traumatic event and often a deeply emotional, life altering time. Whether clients want to have choice during this time is debateable. In many cases it is more likely that clients and families would choose to be pointed to experts who can offer assessment, services and counselling in a single package rather than shopping around. (Blind Foundation, sub. 16, pp. 24–25)

Others stressed that the system was already working well for some clients.

> While we acknowledge that there is a place for client-directed budgets international experience has shown that it is not the right option for everybody. It is important to acknowledge that the current system is working well for some people. (Workbridge, sub. 102, p. 10)

Box 11.2 **Submitter comments on the use of client-directed budgets**

Te Rūnaka o Ōtākou

> The home-based care and disabilities sectors are directly suited for client-directed budgets. This principle needs to be taken further utilising a Co-Production model for commissioning across all service purchasing areas…
>
> In an ideal world all services and purchasing arrangements would follow the client and be co-ordinated across a defined community. (sub. 110, p. 6)

Home and Community Health Association

> Providers involved in IF for under 65s have commented that they can see how it could work in individual over 65 cases. It could suit, for example, situations where families wish to keep their older family member in the home, and can use a mix of family and employed support, by using available allocated funding.
>
> We think that there needs to be a great deal more flexibility around respite care, and suggest that client directed budgets could be effectively applied in relation to that element of community support. (sub. 114, p. 10)

Presbyterian Support New Zealand shared their experience with client-directed budgets for older people.

> Client directed budgets for Older People have been in place for a small number of clients in Otago hosted by Presbyterian Support Otago. In terms of outcomes clients identify the following advantages of Individualised Funding over more traditionally funded services:
>
> - greater flexibility around care arrangements
> - ability to employ staff directly and more stable workforce with less turnover
> - greater ability to fund a range of services that are not available through mainstream funding
> - greater sense of control and autonomy over the service being provided
> - ability for IF to be more responsive to changing needs. (sub. 76, p. 7)

Pharmacy Guild of New Zealand

> There are a number of services that community pharmacy provides that are well suited to a client-directed budget:
>
> - Preventative health interventions e.g. vaccinations
> - Healthcare monitoring e.g. Community Pharmacy Anti-Coagulation Management Service (CPAMS)
> - Managing in the home e.g. weekly preparation and delivery of medication packs. (sub. 11, p. 4)

Platform Charitable Trust

> Budgeting, counselling, youth services, whānau ora navigation/pathway, social housing, health, justice etc. Longer-term rather than shorter term individual services. (sub. 45, p. 17)

Healthcare of New Zealand Holdings Ltd

> Client-directed budgets are likely to be successful in areas where – the client (or their family) has the best information about what interventions/services will improve their quality of life, there is a defined amount of funding that they are entitled to (the client directed budget), an adequately objective process exists for determining that entitlement, adequate support is available to assist them to make decisions and plan expenditure, and there is an effective market of service providers for them to work with. (sub. 51, pp. 6–7)

Auckland District Council of Social Services

> Probably addiction services like alcohol or gambling; combatting obesity; severe mental illness; very limited intellectual capacity; risk related services generally because of limitations in the understanding of the client or of their appreciation of the changes they ought to make. (sub. 55, p. 6)

Principles for successful client-directed service models

Experience with CDSMs in New Zealand and overseas suggests that the model will be most beneficial where:

- the benefits of the service are experienced primarily by the client (ie, the broader costs to society of making a wrong decision are small);
- the costs of making a wrong decision are not catastrophic or lead to irreversible harm for the client (ie, there is an opportunity to learn and experiment with the mix of services);
- it is possible for clients (or their representative) to be given enough information to make informed decisions;
- there are multiple service providers (or the potential for new providers to offer services), allowing clients real choice;
- the cost to the individual of switching between services providers is not excessive or harmful to the client; and
- there are potentially several ways that providers could deliver services.

In contrast, services may be less amenable to client choice (or at least fewer choices) in situations where:

- the choices made by clients have broader implications for society or would create a significant risk to society;
- services primarily involve the use of the coercive powers of the state;
- the number of providers is limited (or there are significant barriers to new providers forming);
- delivering a service to a consistent national standard is important;
- clients do not want choice, or are happy to have decisions made for them;
- the individual is experiencing acute and chronic psychological/physical trauma;
- the preferences of clients are relatively uniform and the potential for scale economies exist (ie, large economies of scale can be achieved without a greater loss in demand-side allocative efficiency); and
- the allocation of uniform services to all clients is important for social equity.

Applying the principles to selected services

Table 11.4 provides a summary of the expected benefits and disadvantages of applying client-directed budgets in four areas: home-based support of older people, respite services, family services and drug and rehabilitation services.

Table 11.4 Applying principles to selected social services

Question	Home-based care for older people	Respite services	Family services[1]	Drug and alcohol rehabilitation services
Are the benefits of the service are experienced primarily by the client?	Yes	Indirectly (via the wellbeing of carers or family)	Yes (there are also positive benefits to society)	Yes (there are also positive benefits to society)
Do clients face interlocking and mutually reinforcing problems?	Yes	No	Typically yes	Typically yes
Are the costs of poor decisions catastrophic or irreversible?	Generally not (assuming service is within legislated standards)	Generally not (assuming service is within legislated standards)	Generally not (assuming service is within legislated standards)	Generally not (assuming service meets a minimum standard)
Can clients make informed core choices?	Generally yes. Some may need support	Yes	Generally yes. Some may need support	Generally yes, but will depend on psychological state
Are there multiple providers or the potential for new providers?	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas
Is the cost of switching excessive or harmful?	Generally not (however relationship can be important)	No	Would depend on relationship established – continuity can be important	Maybe, depending on the circumstance
Are there several ways the service could be delivered?	Yes	Yes	Yes	Yes
Is it easy for new providers to enter the market?	Yes	Yes	Yes	Yes

Notes:

1. Includes services such as counselling and budget services.

R11.1 When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society. Disability support services, home-based support of older people, respite services, family services, and drug and rehabilitation services are good prospects.

11.11 Designing client-directed service models

New Zealanders will not benefit from a poorly designed and implemented CDSM.

Designing and implementing a practical and efficient CDSM requires a deep understanding of alternative design options and the incentives and fiscal implications of choosing one option over another.

Designing a client-directed programme is a complex exercise. It takes time and resources for officials, clients and providers to understand the implications of a new approach. It also takes time and resources for providers to learn how to work under the new system, and to develop organisational structures and processes that fit with the new way of working. For example, the National Disability Insurance Scheme in Australia will take 10 years to implement from the original conception of the idea.

The existing institutional setting is an important consideration for the design of any new approach. These institutions determine the fundamental conditions that the approach will operate in and have significant impact on the outcomes achieved.

Existing formal institutions impacting the design of CDSMs include legislation such as the Public Finance Act 1989 and the Human Rights Act 1993. These formal institutions often set boundaries around the use of public money or the procedures that officials must follow when public money is used. Those designing the system need to have a good understanding of the impact of institutions so that either:

- CDSMs can be designed within the boundaries of existing institutions; or
- reforms to existing institutions can be identified and implemented.

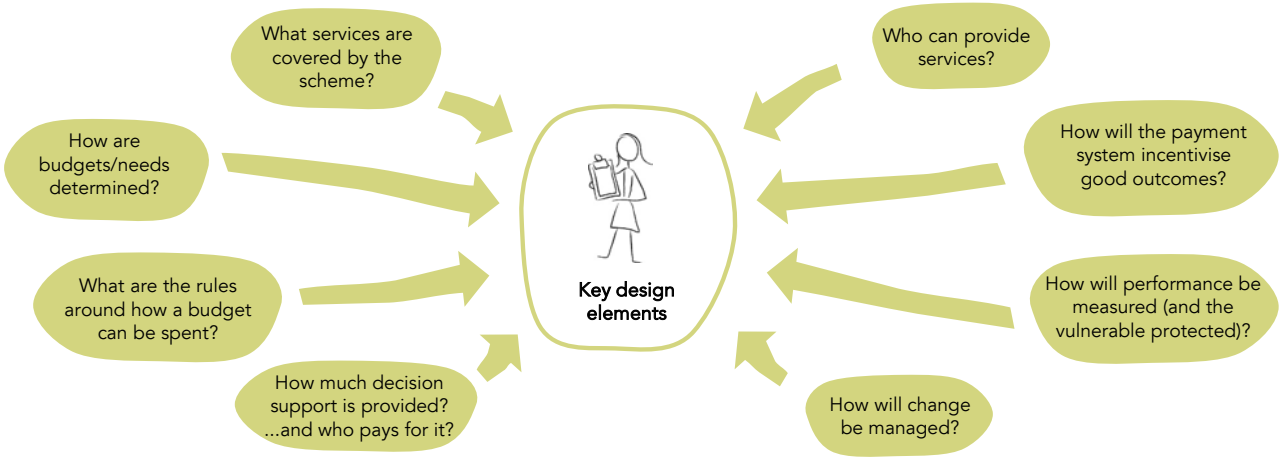
Informal institutions such as society's values, customs, norms and cultures also need to be understood and considered. Client-directed models can often challenge the underlying assumptions of sections of society (including the culture of government agencies). This can lead to resistance from groups that feel threatened by the change in approach (Chapter 13).

Experience to date suggests some key design questions are:

- What service will the scheme cover?
- Who will assess client needs and how will they do the assessment?
- Will there be restrictions around the types of services that a client can access?
- Which government agencies will fund the programme? Will funding be pooled? If so, how?
- What price will be paid to providers for their services? How will the price incentivise good performance?
- Who will measure performance (and how)?
- What roles will different agencies play? How will these roles be coordinated and governed?
- Is the design consistent with existing government institutions and frameworks? Where are the likely sticking points? How can sticking points be overcome?
- Are there missing institutions or functions? If so, what new institutions does the Government need to create? What will be the form and function of these institutions? Who will fund the new institutions?
- What are the transaction costs that the different players in the system are likely to face? How can transaction costs be minimised?
- What will the role of the community be in designing the new approach?
- How will change be managed?

Appendix D provides some guidance on the design of CDSMs, based on experience in the area of disability services.

Figure 11.3 Key design elements of client-directed service models



11.12 Summary – choice can improve outcomes

The social services system will work best when the core choices are made by people with the information, incentive, capability and authority to choose the combination of services (and service delivery methods) that best meet the needs of clients. In many instances, this will be the client. Yet within New Zealand's social service system there are many instances in which clients have little say in who provides services, and in what, how and when services are provided. Problems with the existing arrangements include:

- authority to make choices often rests with those that lack information on client needs;
- choices are not made in a coordinated manner across the system, leading to overlaps and inconsistency;
- institutional incentives rarely reward (and can work against) making choices that meet the client's needs; and
- a lack of authority to make choices disempowers clients.

Changes are required if clients are to have greater choices and if their choices are to influence service quality and the efficiency of the system. Mechanisms for selecting and funding services need to change to allow client choice to impact the flow of public money to providers. For this to happen, government agencies need to loosen their grip on the reins of central control.

12 Better purchasing and contracting

Key points

- Government agencies have several thousand contracts for delivering social services with thousands of not-for profit and for-profit organisations.
- This chapter primarily relates to the contracting-out service model described in Chapter 6, and to a lesser extent in other models. The Commission anticipates that contracting out will continue to be an important service model, and sees significant scope for improvement.
- Contracts between a principal (in this case usually the government) and an agent, which delivers an objective on behalf of the principal, typically cannot cover every contingency. The principal has incomplete information about the agent's performance; and there are incentives to shift risk and for opportunistic behaviour. To cope with these challenges, contracts take many different forms.
- There are various sources of official guidance about how to design and administer contracts. Official guidance should be harmonised. Government agencies should ensure relevant employees and providers are aware of official guidance.
- Submitters to the inquiry (dominated by service providers) consider that contract design and administration need to be improved. Reviews that preceded this inquiry reached the same conclusion.
- To improve contracting practice, agencies should face new requirements to:
  - undertake reasonable consultation with providers and clients during the pre-contract phase;
  - report whether they have met tendering timelines;
  - look for further opportunities to standardise contracts;
  - develop a risk management framework, in consultation with providers, which identifies risks and how best to allocate them;
  - use the risk management framework to help them set the length of contracts, and explain publicly how they did this;
  - adopt a risk-based approach to monitoring contracts; and
  - explore the potential for contracting for outcomes, but only apply it under favourable circumstances.
- Government should improve the capabilities of agencies to contract for outcomes, ideally with payments for outcomes achieved in those contracts.

Choosing the service model best suited to a social service and its intended clients is one of the important tasks in commissioning a social service (Chapter 6). Government agencies purchasing social services from non-government organisations is a typical – and important – approach in New Zealand, and central to the terms of reference of this inquiry. While some of the recommendations of this report, if adopted, could lead to a decline in this approach, it will likely remain important in the long term for services that suit this approach.

This chapter therefore focuses on government purchasers contracting out services to non-government providers. Purchasing and contracting are central features of the contracting-out service model. They are also central to managed markets, but of lesser relevance to the other service models.

The Commission has not found complete and reliable data on the number and value of government purchases of social services from non-government providers. However, government agencies have several thousand contracts for delivering social services with thousands of not-for profit and for-profit organisations. (Chapter 2).[83] New Zealand Treasury (2013) estimated that the social sector accounts for approximately $12.4 billion of procurement expenditure to third parties used for the acquisition and delivery of goods, services and construction. However, the Treasury did not indicate the proportion of this procurement that took place through contracts.

This chapter begins by describing the challenges in designing and administering contracts (section 12.1). Section 12.2 explains the public accountability framework within which government purchasers operate, and the main guidance material that is available. Section 12.3 summarises the views of inquiry participants about how well contracting works. Contracting is controversial: most submissions commented on it. A few opposed contracting in principle, usually because they felt that creating a commercial relationship between the government and not-for-profit (NFP) organisations undermined the reasons why these inherently non-commercial organisations exist. However, most submissions suggested improvements in one or more of:

- contract guidance material;
- the competitive tendering process,
- contract design; and
- contract management.

The final section explores options for making improvements in these areas.

12.1 The challenge of designing and administering contracts

A contract is a formal agreement between two or more persons or entities, involving a promise to do something in return for a payment. Effective contracts impose clear obligations, and reward performance that is measured against these obligations. Specification matters for the purchasing agency, to provide assurance that it is not wasting money, and for the contractor, so that it can prove that it has fulfilled the contract.

This section describes features of contracts that influence their design and administration. Appendix F provides more details.

The principal–agent relationship

The principal–agent relationship is a useful framework for analysing many contracts. The principal in a contract engages an agent to undertake a task or perform a service to advance a desired outcome. In general, the principal and agent have differing incentives and information. To encourage the agent to act in the principal's interests, the principal needs to:

- specify the required objective and outcomes;
- design incentives to align the agent's interests with their own; usually by rewarding the agent for achieving the objective or by penalising failure;
- negotiate contract terms and conditions with the agent, including the required objective and mutually acceptable incentive arrangements; and
- monitor whether the objective is being achieved, based on observable information.

[83] Information supplied by Martin Jenkins and based on data covering four government agencies: the Ministry of Health, the Ministry of Social Development, the Ministry of Justice and Te Puni Kōkiri.

Ideally, payment is made in exchange for achieving a clearly specified and measurable outcome. However, this ideal is difficult to achieve. More often, payment is made for achieving inputs or outputs, rather than outcomes:

> …it is very important to distinguish between 'contracting for outcomes' and 'outcomes focused contracts'. When we refer to contracting for outcomes in this paper, we refer to funding that is linked to performance or results. Outcomes focused contracts, on the other hand, are still specified in terms of inputs or outputs, but there is an emphasis on how an activity improves higher level population or client outcomes. (New Zealand Treasury, 2014, p. 2)

Outcome focused contracts are predicated on an anticipated link between the inputs or outputs and outcomes. If this link is weak or absent, "providers are not rewarded according to how good their service is, but whether they enact certain processes" (Haldenby, Harries & Olliff-Cooper, 2014, p. 30).

Negotiating and administering contracts involves transaction costs, such as legal fees to draft and check the contract, the cost of setting up and running a disputes resolution procedure, and reporting requirements. These costs are incurred to improve contract operation. For example, careful legal drafting can specify events that trigger actions, and the specific actions that the principal and/or agent are required to take.

The Government is often the principal but not the direct recipient of the services.[84] Rather, it purchases services that are then made available to, for example, an unemployed person or a person with a disability. Ideally the Government will gather information about the needs of the recipients on whose behalf it is acting, although this may be less likely to happen when contracts – as in the case of some that are administered by Ministry of Social Development (MSD) – do not even collect information about the types of individuals receiving services.

Collecting and analysing information about client needs and preferences is costly. There is less need for the Government to bear these costs in the client-directed service models discussed in Chapter 11. In such cases this information is generated through clients dealing directly with providers: if a provider does not meet a client's needs, the client is usually allowed to switch to a provider who does. Indeed, in such cases providers may be the agents of more than one principal (ie, the Government and the client). Providers have to compete between themselves for clients – a form of competition that is often absent when the Government contracts with providers on behalf of the final user of the service.

Challenges in contract design and management

Contract design needs to take account of inherent features of the principal–agent relationship, including:

- contracts are usually incomplete;
- each party has incentives to shift risk to the other; and
- incentives for opportunism.

Incomplete contracts

Contracts are normally incomplete, because they do not specify remedies for all possible future contingencies. It is usually not feasible to identify all risks, and even the best drafting will not eliminate all risk that the principal will not get exactly what they want.

The implications for design are evident in New Zealand practice (section 12.4 provides examples) and include that contracts may:

- distort behaviour as the parties focus on contracted elements while ignoring others that may also affect the intended outcomes, but are relatively difficult to observe focus on inputs, about which there is usually more complete information, rather than on outputs or outcomes (Box 12.1);

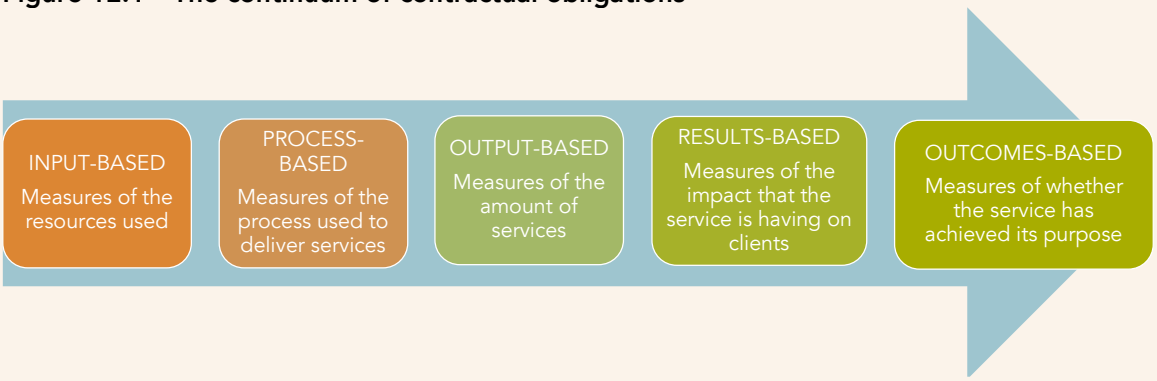
[84] The picture is further complicated by the fact that the Government comprises multiple, hierarchical principal–agent layers (Appendix F).

- become outdated if providers change their service to meet evolving client needs, but contracts are rolled over rather than amended; and
- may become more personal over time, in the sense that trust and loyalty matter more.

Box 12.1 **Specifying contracts for providing social services**

Typically, contractual obligations are specified in one of several ways (Figure 12.1). Moving from left to right across the Figure, obligations match more closely to desired objectives but are typically more difficult to measure.

Figure 12.1 The continuum of contractual obligations



More specifically:

- *input-based obligations* specify the resources a provider must expend in delivering the service (eg, the number of trainers that must be present at a training course);
- *process-based obligations* specify the process or methods that a provider must use when supplying a service (eg, the content and method of instructing a training course);
- *output-based obligations* specify the amount of services that a provider must supply (eg, the number of attendees that complete a training course);
- *results-based obligations* specify the impact that the purchaser expects the provider to have (eg, the percentage of trainees that were able to find work); and
- *outcome-based obligations* specify the objectives the purchaser expects the provider to deliver (eg, a reduction in youth unemployment).

Some problems caused by incomplete contracts will be less serious if there is mission alignment between principals and agents. "Mission orientation" refers to the values and objectives of organisations, workers or social services clients – relating not just to the exchange of goods or services, but also their availability to clients, and the means by which they are produced. The closer the mission alignment between principal and agent, the less risk that the agent will exploit the contract by under-delivering on elements that are less easy to observe. Alignment of mission orientation can substitute to some degree for the use of incentives in contracts to reduce the risk of quality shading (Appendix F).

Managing risk

Efficient contracts allocate risks (eg, of cost overruns, unexpected changes in demand or provider under-performance) to the parties who are in the best position to manage them. The challenge is to design contracts that anticipate risks without unnecessarily hindering beneficial risk-taking and innovation.

The aim should be to achieve an *optimum* – rather than a *maximum* – transfer of risk away from the Government. However, if ministers and government agencies expect to be held accountable for the failures of providers, they may seek to reduce their exposure by controlling what the provider does. They might do

so by using highly specified contracts that describe the inputs to be used, the processes to be followed and the outputs that are to be produced. This can, however, reduce providers':

- incentives and room for innovation;
- flexibility to respond to changes in clients' needs or in the environment; and
- scope to work together and to supply integrated bundles of services (Spiller, 2008).

Moreover, trying to transfer risk to providers can backfire on the Government, which may in any event bear the cost of inappropriately transferred risk through higher service charges or increased likelihood of default.

> Ultimately, providers will not bear risks that they cannot control. They may agree to. They may attempt to. However, in the final analysis, if providers lack the levers to mitigate their risks, they will fail, and hand the risk back to the state. Therefore, it is in government's interest to do all it can to ensure the level of risk it is asking providers to take on is appropriate and manageable. (Haldenby, Harries & Olliff-Cooper, 2014, p. 35)

There are ways to manage risks without introducing excessive prescription. These include tying payments to the delivery of services or to quality performance criteria (to avoid quality shading); imposing obligations on suppliers to have adequate financial reserves or insurance cover; and tying contract renewal to contract performance.

Incentives for opportunism

Both parties usually incur costs if they leave a contract, particularly if they have invested in specific assets that have value in a particular use or in the context of a particular relationship but less value in other uses. This creates incentives for opportunistic behaviour, because one party can "hold up" the other party to the value of that specific commitment. For example, the Government might change the interpretation of the contract or other things it controls, including regulation, after a contract has been signed. To protect themselves against such opportunism, private contractors may seek contract specificity, commit to investing in fewer and smaller specific assets, and favour forms of rewards that are more difficult for the principal to appropriate. Opportunism can also happen on the other side of the contract. For example, a contractor could seek to exploit the aversion of governments to public failure by bargaining for additional payments to avoid such a perception.

Relational contracts

Relational contracts rely on informal agreements and self-enforcement based on the parties agreeing to contract variations without formal renegotiation or litigation. They can be particularly useful where dimensions that are hard to measure are important and exchanges recur.

Long-term relationships form the basis of many private sector contracts. These relationships can span multiple contract periods – creating an incentive for both parties to cooperate (as their actions can impact their likelihood of securing future contracts). The arrangements can take different forms. The "keiretsu" system used in Japanese industry (eg, by Toyota) is illustrative. Under this approach, procurers maintain relationships with a small set of suppliers, combining information sharing, close monitoring and limited competition (Aoki & Lennefors, 2013). There are also alliance relationships, based on a collaborative approach to project risk, project management and the adoption of mutual objectives and outcomes, and which tend to be used in infrastructure projects (Regan, n.d.).

Such relational contracts allow for adjustments to service delivery, when unforeseen or unexpected circumstances arise, to occur without renegotiation. This reduces the cost of administering the contract (Baker, Gibbons & Murphy, 2001; Spiller, 2008). The Blind Foundation argues that successful relational contracts can occur where there is consistent and personal contact between the two parties and relationship managers are empowered to modify and adjust the contact or how it works (sub. 16, p. 22).

Relational contracts do not fit easily within the public sector accountability framework. To avoid the risk of cronyism and favouritism, administrative rules limit the discretion of contract managers to make ad hoc adjustments to service delivery, and annual funding cycles reduce the certainty of future contracts (and therefore the incentive to cooperate).

The High Trust Contracts initiative, introduced by MSD in 2009, attempted to move towards relational contracts. It recognised that stable and established providers with a good track record pose less risk and that, as a result, inflexible contract terms could be removed. However, the Commission heard examples of contract managers introducing conditions into High Trust Contracts that made them indistinguishable from highly specified contracts.

Submissions did not provide many examples of relational contracts, although National Services Purchasing suggested that:

> Relational contracts are best when there are close, trusting, and highly communicative relationships between funder and provider at governance and operational levels, with stable personnel and organisational cultures. (sub. 111, p. 9)

The Public Health Association, however, appears to have a different view of the extent of relational contracting, noting that "gold standard" commissioning has been compromised by, among other things, "suspicion of relational contract management" (sub. 122, p. 6).

The Treasury noted that many short-term contracts roll over after 12 months. This could be consistent with a relational approach to contracting. However, it pointed out that:

> … it is not clear what the shared benefit of 12 months contracts is other than risk control for the government agency. The question is whether this is an efficient and effective way of managing risk given the high costs it creates for those providing the service? To our knowledge no analysis of this has been attempted by any government agency. (New Zealand Treasury, 2013, p. 22)

Around 10% of MSD's Community Investment contracts are actually agreements for grants rather than contracts for services. These contain minimal specifications, and are less formal. MSD's grant funding is typically for one-off projects or provider development (pers. comm. 17 March 2015).

Using competitive tendering to improve contracting

Competitive tendering for contracts can improve the efficiency of service delivery in four ways.

- Specifying the objective and incentive arrangements, including performance measurement, can enhance accountability.
- Open tendering reveals the prices at which providers are willing to provide specified services.
- Allowing entry by new providers and encouraging poor performers to reform or exit can stimulate efficiency and innovation. This is provided that tenders are not held so frequently that providers expect they will not secure the gains from innovation, or so infrequently that providers feel they are insulated from competition.
- Opening itself up to competition from external providers can stimulate improvements in government service delivery.

However, the design and implementation of tenders is complex.

Impacts on quality

Tenders based on lowest price are well-suited to procuring simple goods or services whose characteristics are easily specified in advance and for which there is little risk of changing specifications post-tender. However, when quality is important and is difficult to measure, competitive tenders can result in quality shading unless providers care at least as much about quality as does the procurer, or expect their reputation for providing a quality service to be a determinant of whether they are re-appointed.

Frequency

Aligning the length of tendered contracts with the investment horizon of the providers should reduce hold-up risk. However, if providers still feel that they are exposed to this risk, they may make fewer or less-specific investments. Frequent changes in providers can cause undue disruption for clients.

Other features

Appendix F discusses other features of the tendering process, such as the information structure; disclosure of project information; the capabilities of public sector tendering end enforcement institutions (eg, regulatory bodies); and the credibility of commitments by public bodies. It notes that stronger mission alignment in NFPs supports non-monetary incentives for quality provision, but that this advantage relative to for-profit (FP) firms must be weighed against the ability of the latter to pay more and so attract more able workers, as well as reputational concerns of FP firms supporting a commitment to quality.

Section 12.3 demonstrates that many NFPs feel that tenders impose excessive costs, can reduce quality, and are too frequent. Section 12.4 puts forward proposals for addressing these problems.

12.2 The framework for contracting out government service provision in New Zealand

Government agencies that fund non-government providers need to operate within the public accountability framework that applies to all expenditure of public funds (Box 12.2). The pressure for accountability that this framework creates may have encouraged the use of contracts (OAG, 2006, p. 15). This section describes Government guidance about how to undertake contracting.

Box 12.2 **Public sector accountability framework**

Ministers are accountable to Parliament for the manner in which public funds are spent, and public servants are subject to public law and administrative requirements designed to ensure that public funds are used in a lawful, transparent and accountable manner.

The main elements of the public sector accountability framework are:

- overarching "machinery of government" statutes – for example, Constitution Act 1986, State-Owned Enterprises Act 1986, State Sector Act 1988, Crown Entities Act 2004, Public Finance Act 1989, Local Government Act 2002;
- sector- or entity-specific legislation – for example, Education Act 1989, Children, Young Persons and Their Families Act 1989, New Zealand Public Health and Disability Act 2000, Vulnerable Children Act 2014;
- rights-related legislation – for example, New Zealand Bill of Rights Act 1990, Human Rights Act 1993, Privacy Act 1993;
- oversight and accountability legislation – for example, Local Authorities (Members' Interests) Act 1968, Ombudsmen Act 1975, Official Information Act 1982, Local Government Official Information and Meetings Act 1987, Protected Disclosures Act 2000, Public Audit Act 2001; and
- ethical and administrative guidelines that include the Cabinet Manual 2002 and the State Services Commission's Public Service Code of Conduct.

Source: OAG, 2006; Productivity Commission.

Contracting guidelines

Two core documents are the Treasury's *Guidelines for Contracting with non-government organisations for services sought by the Crown* (New Zealand Treasury, 2009) and the Office of the Auditor-General (OAG)'s *Principles to underpin management by public entities of funding non-government organisations* (OAG, 2006) (Box 12.3). The Treasury and OAG Guidelines were developed when the focus was on sound management of public finances. More recently, the focus has been on rules about good procurement practice. A recent review by the Treasury considers that its Guidelines have weaknesses (section 12.4).

Box 12.3 **Guidelines**

Office of the Auditor-General's guide for managing funding arrangements

This guide explains six principles that the OAG "expects public entities to consider — and act in keeping with — to manage funding arrangements with non-government organisations":

- lawfulness;
- accountability;
- openness;
- value for money;
- fairness; and
- integrity. (OAG, 2006, pp. 9–10)

The guide contains four scenarios showing how the principles might be applied, and how they interact.

Treasury guidelines for contracting with non-government organisations for services sought by the Crown

These guidelines, first issued in 2001 and revised in 2009, are intended to encourage better contracting practices. As the OAG pointed out, the Treasury "has a responsibility to ensure that all government departments and Crown entities are aware of, and take into account, best practice principles in the management of public resources" (OAG, 2006, pp. 7–8).

The guidelines are underpinned by principles of good contract management and cover all aspects of the contract lifecycle:

- planning;
- selecting a provider;
- negotiating the contract;
- managing the contract;
- review and evaluation; and
- starting over.

Some government agencies also set out guidance, policies or procedures. The OAG notes that this guidance "usually" aims to be consistent with the Treasury and OAG guidance, and that MSD and the Ministry of Health (MoH) adopt this approach (OAG, 2006).

Funding guidelines

The Department of Internal Affairs (DIA) has published a voluntary Code of Funding Practice (DIA, 2010), which aims to assist government and non-profit organisations when entering into government funding arrangements. [85] The Code sets out seven code areas: respect; cultural context; transparency; open communication; flexibility and innovation; integrity; and accountability. It provides criteria for each code area and recommends performance indicators.

[85] The Code is primarily aimed at the funding relationships between government agencies and the non-profit sector, although its general principles "may apply to a wider range of funding arrangements" (DIA, 2010, p. 7).

According to the DIA, the Code "does not duplicate the advice provided by the Treasury or the Office of the Auditor-General, but rather embodies a common understanding of, and mutual commitment to, specified principles and minimum standards that may be used by both government and non-profit organisations" (DIA, 2010, p. 7). However, the Code does seem similar to the other guidelines.

Compliance with the Code is not monitored or reported. Indeed, the Commission is not aware of reporting against any contracting guidelines.

The streamlined contracting project

In March 2013 Cabinet directed the Ministry of Business, Innovation and Employment (MBIE) to lead the "Streamlined Contracting with NGOs" 3-year project (2013–2016). The project aims to reduce inconsistency in, and duplication of, contract management practices across government agencies, to reduce compliance costs for non-government organisations (NGOs). The project includes six government agencies (ie, MSD, Health, Justice, Education, Corrections and Te Puni Kōkiri).

The project, which is being undertaken in partnership with NGOs, with oversight from the cross-agency Social Sector Purchasing Steering Group, has created a suite of contract, contract management and decision-making tools, collectively referred to as the *Contracting Framework*. This is designed to increase consistency across government agencies that contract with NGOs and to improve coordination between agencies and reduce duplication of audit-related activities.

MBIE expects the benefits of the framework to include:

- standard terms and conditions for contracts to enable NGOs to focus on service delivery;
- tools and templates to support more consistent management of contracting arrangements;
- an enhanced ability for NGOs to work collaboratively with and across multiple government agencies, using a common language based on a common understanding/approach;
- reduced training and up-skilling requirements for personnel moving between government agencies and/or NGOs as the Contracting Framework is standard across agencies;
- reduced requirements for input from legal specialists;
- greater availability of data and information, including identification of opportunities for more collaborative contracting;
- less duplication of contract management activity, such as audit and monitoring;
- an increased focus on identifying and measuring improvement in client outcomes through the use of Results Based Accountability (RBA); and
- the ability to streamline reporting through use of shared performance measures across programmes. (Procurement.Govt.NZ, 2014)

Some next steps are noted below.

- Continue to move contracts with providers over to the new outcome agreement template. Current forecasts indicate that government agencies will enter into about 900 contracts using the Contracting Framework by 1 July 2015, with a further approximately 1240 contracts currently planned for transition in 2015/2016. These contracts make up approximately 60% by volume of government agency contracts with NGOs. The intent is that all contracts with NGOs will be migrated to the Contracting Framework when their current contracts expire, renew or are replaced with new services (pers. comm. 7 April 2015).
- Test the suitability of the framework within the District Health Board (DHB) contracting environment. A decision on any roll-out and the timing of any roll-out in DHBs will be made once trial work is completed (pers. comm. 7 April 2015).

- Set up an MBIE-managed contracts register.
- Provide agencies with access to a software application as a single repository in which to store RBA information from NGO providers.

The Social Sector Purchasing Steering Group has a wider programme of streamlined work, including the harmonisation of audit, approval and accreditation standards and practices. MSD's information technology system for approvals is being developed as the initial technology platform for coordinating audits across agencies, providers and programmes.

Procurement rules

MBIE has also issued procurement rules and in February added 103 Crown entities to the 29 government agencies already mandated to apply the rules. However, agencies acquiring certain types of public health services, education services and welfare services, which appear to cover many social services covered by this inquiry, are able to opt out of applying these rules. They are expected to conduct their procurement according to procurement principles and other procurement good practice guidance (MBIE, 2014).

Implications

There are many advisory documents. There is a risk that, when confronted with so many documents whose roles may be difficult to distinguish, agencies may ignore them all if they are unsure about which ones to follow. Further, guidelines by themselves will not deliver the desired outcome. They need to be accompanied by staff training in how to apply them and by the resolve of senior management to apply them consistently. Guidelines developed outside an organisation are less likely to be "owned" by it.

The Treasury considers that in spite of the large number of improvement projects, further progress is required.

> There is a long history of initiatives in this area and a number of new projects underway which are all attempting to improve the performance of the social service market. Many talk about a focus on outcomes, but very few seem to be moving towards contracting for outcomes, or performance-linked funding. (New Zealand Treasury, 2013, p. 5)

12.3 Issues raised by participants

Submissions, most from non-government providers of social services, covered many aspects of contract design and management.

Some providers are concerned that competition for contracts discourages trust and collaboration between non-government providers, or undermines their independence and advocacy role.[86] Most participants, however, focused on four issues:

- the tendering process;
- contract design;
- contract administration, including the complexity of reporting; and
- various impacts of contracting.

The tendering process

Tendering can improve the efficiency of service delivery, but needs to be carefully designed. Submissions tended to focus on problems with the administration and frequency of tenders (and therefore transaction cost), and their differential impacts on providers.

[86] Submitters with this view include the Methodist Mission (sub. 4), Restorative Justice Aotearoa (sub. 28), Barnardos (sub. 12), the Disability Support Network (sub. 47) the Dunedin Community Law Centre (sub. 48), the Public Services Association of New Zealand (sub. 108), Relationships Aotearoa (sub. 56), the Tauranga Budget Advisory Service (sub. 57) and the Waves Trust (sub. 83).

Administration

Health Care of New Zealand Holdings (HCNZH) considered that the quality, accessibility and usefulness of information provided by funders during contestable processes is highly variable, inadequately prepared and can increase the time and effort required to prepare a Request for Proposal (RFP). It has also observed a secretive approach to answering questions during the procurement process (sub. 51). The Salvation Army pointed to "baffling" tendering decisions, and indicated that it had very little confidence in a tendering process it was involved in (sub. 104). Whakaata Tohu Mirror Services noted that:

> Crown entities are very limited in their contracting skills, generally manage small budgets and don't seem to have the infrastructure in place for contracting. Reporting processes are rushed and there is no auditing process in place. These contracts seem to be administered on a who knows who basis. (sub. 23, p. 3)

Some providers commented that the Government does not adhere to its own timetable in tender processes. This could mean, for example, that a provider might not know until after contract expiry whether it was to be renewed, which would make it difficult to keep on staff. Spectrum Care Trust Board criticised this and other aspects of a tender it was involved in.

> The national BSS contract exemplifies the MoH's inability to adequately control a project. Like most of its tendered offerings, the timelines, rules, communication undertakings and RFP protocols are sometimes severely compromised. MoH has attracted little confidence from the sector in terms of its credibility, leadership and competency. This RFP process lacked credibility from the outset with many providers believing the decision was 'fait accompli' from the beginning of the process. (sub. 90, p. 2)

Other submissions acknowledged recent attempts to improve tendering processes, such as MBIE's Contracting Framework. However, Te Rūnaka o Ōtākou observed that, in the health area:

> Government's recent streamlined contracting initiative and commitment to reduce the audit burden are welcome moves, but so far they have only impacted on a very small number of providers. As long as DHBs and other government agencies are not part of the streamlined approach, the burden of compliance will not reduce significantly for non-profit health providers. (sub. 110, p. 10)

Short-term contracts

A common view is that tenders are too frequent, and that short-term contract periods increase costs and reduce service integration, innovation, and the ability of providers to retain staff and premises.

The Wise Group noted that:

> ...most contracts tendered are short-term, never greater than three years and for many now one year agreements; this despite their definition being for essential services. This is certainly the case in specialist mental health and addiction services where in one DHB area all of the group's contracts are for one year. Longer term agreements, five years minimum, would reduce the cost of contestability.
>
> A similar example is year on year contracts which are continuously re-issued. For example, in one DHB area we have had 12 one year contracts over 12 years! (sub. 41, p. 23)

The Wise Group considered that the cost to the Crown, to the Group and to other tenderers is difficult to justify, particularly given that contracts are often re-issued. The Group also considers that contestable processes have been used to bring about changes to service models that could have been given effect at lower cost through negotiation and contract variation (sub. 41).

The Southland Interagency Forum worries that frequent changes to tendering rules increase cost, pointing to:

> ...protracted and resource draining contract negotiations, onerous audit requirements for all (even if the contract value is less than $10,000), continual threat of either tendering contracts on the open market, or changing the rules and accepting of tenders that don't meet original "Request for Proposal" criteria, all of which have come about in the last two years. (sub. 29, p. 1)

Relationships Aotearoa considered that as well as imposing excessive costs on bidders, excessively frequent tenders discourage partnerships between providers:

> Forming mutually beneficial partnerships takes time, and often the contestable funding processes are managed within very short timeframes. This is not conducive to forming partnerships for the purposes of delivering integrated cross agency services. (sub. 56, p. 8)

Supporting Families in Mental Illness (sub. 49) and Restorative Justice Aotearoa (sub. 28) note that short-term contracts create uncertainty and stifle innovation. Care NZ points out that "year to year contracts make planning difficult" (sub. 99, p. 5), while the Auckland Council of Social Services considers that short-term contracts also reduce the incentives for providers to share good practice, reward staff and advocate policy or practice changes (sub. 55). Community Networks Aotearoa (CNA) observes that short-term contracts make it difficult to retain staff or premises (sub. 31). With many 3-year contracts tied to an electoral cycle, "after every election, new ideology can change everything that an organisation has been requested to do" (p. 8).

Impact on providers of different sizes

There are two views on provider size. The first is that in the small New Zealand market, it may be efficient for the Government to contract with a small number of service providers. The second is that the tendering process discriminates between providers.

An example of the first view is Carers New Zealand:

> Attempting to introduce competition among service providers where there is not sufficient capacity or capability tends to damage the limited capacity or capability that is available, with a corresponding decrease and disruption to the quantity or quality of the services available. There are real examples where this has happened in the last few years. (sub. 71, p. 7)

Similarly, Youth Horizons' view is that:

> … for target populations which have complex and hard to treat conditions the country should invest in a small number of providers which can scale up evidence-based interventions, implemented with high model fidelity, and with the capacity to build ongoing data collection and quality improvement systems. We recommend that government agencies make a strategic decision to take a targeted investment approach on the basis that this will create the conditions which facilitate strong organisations delivering interventions which yield strong investment returns via reduced costs of crime and other social harms to the state and private sectors. (sub. 67, p. 14)

On the other hand, several submitters argued that the tender process disadvantages small providers and that price and provider size should not be the only determinants of contract outcomes (Box 12.4).

Box 12.4 **The tender process and small providers**

CNA argued that the system of tendering on-line for social services is "deeply flawed" and "is not a level playing field. Local NFPs cannot compete with large organisations who have resources to employ contract lawyers" (sub. 31, p. 8). The Community Care Trust considered that the tendering process favours larger providers who can employ professionals to write tender documents (sub. 96).

Inclusive NZ argued:

> Smaller community organisations … have less resource and capacity and are at a disadvantage when competing with larger and for-profit providers who have experience and funds to invest in tender bids. Tender processes that are awarded on the strength of a tender document and do not take into account an organisation's relationship with its community also place these organisations at a disadvantage. (sub. 32, p. 8)

The New Zealand Red Cross noted:

> All parties contesting a contract are generally required to complete all steps in the tendering process. This represents a significant duplication of effort particularly for smaller organisations. A simple staged process to shortlist contenders may enable interested parties to provide a high level expression of interest, and be selected to progress to detailed design on a needs basis only. (sub. 94, p. 4)

Presbyterian Support New Zealand observed that the "cost and complexity" of the tender process "will concentrate the sector and potentially exclude niche providers" (sub. 76, p. 14).

Participants commented on:

- payment terms;
- performance measurement (particularly outcomes); and
- prescription in contracts.

Payment terms

Terms can include payment in advance or after delivery; the length of time before invoices are paid; the price paid; and how payments are structured.

Many submitters complained that contract prices are inadequate to cover their costs. This issue is explored in Chapter 6.

The Delta Community Trust complains that payments can be late.

> Payment mechanisms for CDHB contracts are complex and we often need to chase up payment (to our cost) and sometimes spend a fair amount of time getting the correct payment. (sub. 13, p. 2)

Contracting for outcomes

Contracting for outcomes involves payments to agents for achieving outcomes. Desired outcomes are specified in the contract, and there is a risk of losing the contract if those outcomes are not achieved. This approach has both supporters and critics among the submissions.

Supporters argued that it focuses activity on what matters, helps innovation, encourages flexibility, allows for culturally specific responses, and facilitates relational contracts. Manawanui (sub. 8) and the Blind Foundation (sub. 16) noted that it is outcomes that matter to clients.

> Outcomes are more important than processes and inputs. Contracts need to be refocused on how people's choices have improved their lives and the lives of those around them, and how the supports and services have contributed to these outcomes. (sub. 8, p. 2)

> Outcomes are the only truly reliable measures that matter for clients, and in establishing return on investment, and value to the wider population. (sub. 16, p. 29)

Similarly, the Wise Group considered that while defining outcomes is challenging, activity-based contracts focus attention on less important activities, by creating:

> …unhealthy pressure to focus on the immediate service delivery via contact hours at the expense of workforce development, community development, quality improvement and a focus on outcomes which demonstrate a higher value than being busy. These contracts set services up to 'hit a target, but miss the point'. (sub. 41, p. 18)

Footsteps (sub. 42), the Methodist Mission (sub. 4) and HCNZH (sub. 51) suggested that measuring outcomes helps innovation and flexible service delivery.

Te Rūnaka o Ōtākou observed that:

> Contracts that co-design outcomes rather than specified outputs allow for a much more culturally specific response to human need. Narrowly defined outputs produce a silo that capture human experience inhumanely, as data and diminishes their status as citizens. A broad focus on outcomes, value added and strong communities requires contracts that reflect these complexities. I am struggling here to find an example of one. (sub. 110, p. 6)

Alzheimers New Zealand considered that measuring outcomes facilitates the development of relational contracts:

> High trust contracts rely on a sense of mutual value in the relationship and high levels of professional judgement, supported by strong outcome measures and reporting. The current purchasing model for services for people living with dementia is based on low cost and easy to count/capture aspects.
>
> A shift to relational contracting would require significant investment in the development of outcome measures to be used across service providers and in relation to different health or social matters, together with the professional capability required to develop and manage the necessary relationships. (sub. 27, p. 4)

The Department of Corrections provided an example of a trial involving a contract in which part of the payment to providers is based on measured outcomes. The initial success of this trial has led to the programme being extended to more difficult cases (Box 12.5). Youth Services and Whānau Ora are also examples of contracts involving payments for outcomes (Chapter 3; Appendix C).

Box 12.5 **Department of Corrections' Out of Gate programme**

> An example of the Department's approach to contracting with third parties is a new programme, Out of Gate, designed to improve the prospects for successful re-integration into the community of prisoners who have served prison sentences of less than two years.
>
> The five service providers, selected as a result of a contestable process, make contact with referred prisoners before they leave prison. When they are released from prison, providers help them find accommodation, prepare for employment, meet health and wellbeing needs and benefit from life skills training. The providers are paid 85% of their fee for these services (inputs). The remaining 15% of the service fee is dependent on them achieving reduced re-offending outcomes.
>
> The contract specifies the outcomes and some outputs, but otherwise leaves the providers free to apply their expertise and experience to achieve the outcome and so maximise their fee income.
>
> To enable providers to compare their performance, all data for each provider on referrals, offender status and the achievement of participants is shared with all providers. This helps drive performance and enables the Department to evaluate provider performance on an ongoing basis. The data is collated and published monthly.
>
> Governance meetings of all five providers with representatives of the Department are held quarterly. These meetings provide an opportunity for collaboration and the exchange of ideas among the providers. They also provide an opportunity for providers and the Department to talk about any weaknesses in the delivery model and the incentive structure, and to suggest improvements. This forum could be used to review whether the required outputs are essential to achieving the desired outcome, and if not, whether they should cease to be compulsory and/or be replaced by another output that might have more impact on outcomes.
>
> The success of the original programme has led to it being extended to a more demanding subset of short-serving prisoners. The real-time evaluation of the service has enabled the Department to expand the programme more rapidly than would have been possible if the expansion had been reliant on a post-trial evaluation.
>
> The provider contracts are for an initial term of two years. Over the longer term, it may be desirable to have longer-term contracts to avoid the inevitable loss of provider focus towards the end of contract as staff become anxious about the continuity of their employment. (Department of Corrections, sub. 21, pp. 1-2)

Some other participants, however, consider that contracting for outcomes is not practicable. They made six related points.

First, some participants, such as the Auckland Council of Social Services (sub. 55) and Presbyterian Support New Zealand (sub. 76), argued that only some services have measurable outcomes.

Second, other participants (eg, Jane Lee, sub. 60; New Zealand Education Institute, sub. 40) considered that outcomes for some services are only observable in the long term, beyond the duration of normal contracts.

Third, the limited measurability of outcomes reduces the scope for contracting for outcomes. For example, the Disability Support Network pointed out that "cost data are few and outcome measurement is largely absent. …information flows are almost entirely restricted to processes rather than outcomes" (sub. 47, p. 9).

Fourth, some outcomes cannot be attributed to a particular service. The Auckland Council of Social Services observed that:

> For building community resilience a great many services come together each with varying but unmeasurable effectiveness so the proportionate role of each input which led to the outcome usually can't be determined. (sub. 55, p. 4)

This can be particularly problematic when a number of agencies work together (Superu, sub. 82).

Fifth, some participants (eg, Jane Lee, sub. 60; Sue Johnson, sub. 3; NZCTU, sub. 103; Salvation Army, sub. 104) suggested that contracting for outcomes can create opportunities for providers to divert resources from the most difficult (and costly) cases.

> We understand that other commercial private training establishments are ensuring their survival by only taking clients onto their programmes who are very likely to succeed. We submit that many of this type of client would succeed without government funded interventions. The Salvation Army will not leave clients behind and we will continue to take the neediest clients despite the pejorative impact these clients have on our outcomes/success statistics. (sub. 104, pp. 5–6)

It should be possible to design more sophisticated measures of outcomes that pick up the value added for each client, to stop the types of behaviour that participants identified. However, submissions generally did not discuss the design of outcome-related payments.

Sixth, Carers New Zealand noted that contracting for outcomes:

> …shift the risk for performance on to the service provider, when the result or outcome will probably be beyond their control. It is also inconsistent with the objective of NGOs and government agencies being in a partnership or collaborative relationship if the responsibility and risk associated with the desired outcomes is shifted on to the service provider. (sub. 71, p. 5)

The extent of prescription in contracts

Submissions provided many examples of prescriptive contracts. For example, the New Zealand Disability Support Network:

> …frequently hears concerns about government contracts being unnecessarily restrictive – to the detriment of disabled people … Commonly, there are complaints about contracts that prescribe set hours for client contact with support people. For example, MSD vocational services can only be delivered between 9:00am – 5:00pm on weekdays. Logistically, however, there are some educational activities that would be more conveniently scheduled in the evening or weekends – yet such arrangements are not possible under the contracting regime. (sub. 47, pp. 12–13)

The Pharmacy Guild of New Zealand noted that:

> Community pharmacy has experience with a DHB contract that in some areas has been so specific as to restrict those patients with complex needs access to a higher level pharmacy care. (sub. 11, p. 6)

The Dunedin Community Law Centre observed that prescriptive contracts can disadvantage vulnerable clients who require continuity of care (sub. 48).

There are more examples of prescriptive contracts in the discussion of innovation later in this section. Concerns about the impacts of contracting on innovation and the dampening effect of prescription on innovation appear to be widespread.

Contract administration

The burden of reporting and auditing obligations, particularly against prescriptive contracting requirements, drew most comments from submitters.

The Wise Group attached to its submission a report by PricewaterhouseCoopers (PwC) that:

> …evidences significant duplication [in reporting and audit requirements] that comes at an avoidable cost to the Crown and the group as a provider. Importantly the report also identifies the ease with which an integrated audit could be developed and adopted, creating significant savings in both time and money. (sub. 41, p. 35)

The Southland Interagency Forum refers to its "punitive and overtly dictatorial reporting requirements" (sub. 29), while the National Council of Women of New Zealand observes that its responding members suggested that:

> …too much time was wasted filling in forms while the real, often urgent work of a service had to wait. Some members reported instances of rushed or skewed reporting by agencies to secure the next round of funding. (sub. 20, p. 2)

One reason for the complexity is the large number of reports that some contracts require. The National Committee of Addiction Treatment (sub. 98) observes that many large providers are audited numerous times against the same standards. Relationships Aotearoa (sub. 56) notes that one major contract requires that it write about 35 narrative reports each quarter for different funding streams.

Departments' different reporting requirements also cause complexity. Whakaata Tohu Tohu/Mirror Services:

> …report to MSD, SDHB & MOH which each have different timeframes and requirements. The MOH & SDHB contracts do not have templates for narrative reporting making it very difficult to provide the required information. Our organisation now uses many more resources than before to complete the required reporting. (sub. 23, p. 3)

Barnardos (sub. 12) and the Laura Ferguson Trust (sub. 10) have a similar concern:

> A key problem at the moment is the wide variety of outcomes, results, goals and measures that are used by different agencies – both government and non-government. Identifying outcomes that are valid and meaningful, measuring them and learning from them is hugely resource intensive. (sub. 12, pp. 7–8)

> Like many social service agencies we hold multiple service delivery contracts administered by a range of Crown-funded agencies. Inevitably there is a compliance burden associated with each contract. In practice this is far more onerous when the contract is in place as reporting expectations (even timeframes) and audit requirements do not align, even in cases where the service delivered is very similar and the need for multiple contracts is because of the demographic of the client receiving the service. (sub. 10, p. 1)

A further cause of complexity is the large number of small contracts with differing reporting obligations that are neither aligned with management reporting systems nor related to contract importance. Hokianga Health Enterprise Trust:

> …holds over 80 Government contracts, each on the whole defining a narrow, mostly inflexible range of service outputs and often detailed but inconsistent, reporting requirements. The level of reporting across these contracts is varied and relatively arbitrary and do not appear to reflect the relative public sector performance risks. …
>
> Feedback on reports is also very arbitrary with some detailed and regular responses and concerns expressed by the funders for small contracts and in contrast, entirely absent feedback for larger and riskier contracts for over twenty years. …
>
> There is also an increasing trend to introduce more outcome based reporting within these contracts, but instead of reducing output reporting, they add another layer of expectation and compliance upon the provider.
>
> The organisational cost of compliance of meeting the reporting and auditing requirements is proportionally extremely high for our relatively small organisation and unbalanced with the level of performance risk. It would be somewhat more efficient if the external reporting and quality compliances aligned with the Trust's own internal need for management reporting and quality assurance, but unfortunately they are often entirely unaligned. (sub. 44, pp. 1–2)

Some impacts of contracts

Participants commented on the impacts of contracts on integration, innovation, and on local communities.

Impact on integration

There were mixed views about the impact of contracting on integration. According to the Youth Wellness Trust:

> The siloed and piecemeal purchasing/commissioning approach currently used actually fragments services. At its worst Providers are then told to collaborate in effect to re-join the fragmented services into a "whole" that is meaningful for the client; all at the cost of the Provider (and client). (sub. 73, p. 10)

On the other hand, the Accident Compensation Corporation (ACC)'s (sub. 30) contracts for integrated services combine services in a single package, with clients and providers able to determine how these services are allocated. However, the ACC noted that the Commerce Act 1986 prohibits contracts, arrangements, or understandings that substantially lessens competition, and discourages joint purchases (and therefore the integration of some services).

CNA noted that integrating different services can lead to the loss of all services if one contract is terminated.

> Many NFP have multiple contracts with multiple government departments. Especially in rural regions where one organisation provides all the community services. When through this process they lose their main contract and they end up closing, the community loses all the other services that organisation provided. (sub. 31, p. 8)

Impact on quality

While contestable processes can improve quality if this is valued by the tenderer and rewarded through contract payments, submissions focused on two ways that contracts can reduce quality. First, the Southland Interagency Forum pointed out that this can happen if providers are selected on the basis of the cheapest bid, and if this encourages under-bidding (sub. 29). Second, the Disability Support Network suggested that:

> …the separation from the funder and provider that is a hallmark of the contemporary era of deinstitutionalisation has enabled government to distance itself from the adverse effects of its underfunding, including any concerns about quality standards, as well as the poor wages and conditions of workers. (sub. 47, p. 7)

Impact on innovation

As shown in Chapter 7 (Box 7.3) many participants considered that prescriptive contracts stifle innovation. MSD recognises that "at risk clauses and tight service specifications can enhance accountability but there is a risk that they could stifle innovation by limiting the ability of providers to tailor services to clients" (sub. 72, p. 5). However, the Health and Disability Network (sub. 70) and HCNZH (sub. 51) argued that the Government does not consider the scope for innovation or value experimentation when drafting contracts. And Wesley Community Action comments that detailed reporting requirements also hold back innovation:

> An example is Family Start – aimed to engage those Whanau most at risk of poor outcomes, yet there is no flexibility in the manner or number of visits by a Whanau worker. The lack of flexibility and lack of understanding the individual issues of each Whanau means a one size fits all approach which is risk adverse and thereby restricting innovative opportunities. (sub. 6, p. 2)

Impacts on rural and remote communities

The ACC (sub. 30) uses contracting processes to ensure that clients in smaller centres and rural areas have access to a choice of providers. For example, ACC's vocational rehabilitation contract requires providers to deliver services throughout one or more defined geographical areas. These areas are defined to ensure that a choice of service provider is available to all New Zealanders. For example, Northland is included within the same area as Auckland, which means that providers who apply to deliver services in Auckland must also do so in Northland.

Some providers, however, are less positive. For example, the National Council of Women's Organisations suggests that when a few larger organisations are contracted nationally they may "cherry-pick contracts", leaving the remaining areas to subcontractors who are poorly resourced and reviewed (sub. 20, p. 3). Both they and Barnardos (sub. 12) called for additional funding to meet the higher costs of servicing smaller communities.

Implications

Providers are dissatisfied about the compliance burden of contracts and some suggest that contracts impede, rather than encourage, desired outcomes. While there were relatively few submissions from government agencies, the Commission's consultations with them gave a more favourable impression about how well contracting is working, although they also see scope for improvement.

Some dissatisfaction with contracts could be due to contracts being used where the commissioning organisation should be using another service model (Chapter 6). However, the deficiencies identified in this section indicate that there are opportunities to improve contract design and administration. The next section sets out recommendations that, if implemented as a package, could generate considerable benefits, given the large number of contracts and the identified weaknesses in current processes. Further, with best contracting practices in place, choices between contracting out and other service delivery models could be based on their intrinsic merits.

12.4 Opportunities for improvement

Improving guidance material

Section 12.3 pointed out that DIA, MSD, MBIE, OAG and the Treasury have all published guidance on contracting with non-government organisations. However, the impression left by submitters is that some agencies and providers make little use of this advice. One possible explanation is that they find the array of guideline documents confusing, and do not understand the documents' respective roles.

The Health and Disability Network considers that government purchasing processes would be "vastly improved if government agencies adhered to the three core funding guidance documents that already exist" (sub. 70, p. 10). Platform Charitable Trust goes further, suggesting that the Government should develop one set of agreed rules for how all government and Crown agencies must engage with, contract with and fund NGOs, and that the three framework documents should become the rules, rather than guidelines, for engaging with the social sector (sub. 45).

Contracts would most likely be improved if agencies and providers made more use of up-to-date guidelines. However, the guidelines are living documents that can be improved with experience, rather than rules. As the Treasury points out, they are not a manual on how to write contracts and "do not diminish the need for Government agencies to exercise informed judgement about the arrangement that may be appropriate in their own circumstances" (New Zealand Treasury, 2009, p. 2). Consequently, the Commission disagrees with the Platform Charitable Trust's view that the guidelines should become rules. However, it does agree that there should be a single document (or set of consistent and clearly related documents located in one place) to which agencies and providers can refer.

The existing documents are a useful starting point for a single source of advice, although their weaknesses need to be addressed. For example, a recent Treasury paper has pointed out that the Treasury guidelines:

- are too simplistic as they assume contracting processes are based on negotiating price and payment, while price may not form part of a provider's tender bid;
- do not provide advice on how to approach risk sharing, even though this is a very important issue; and
- do not adequately address contracting for outcomes (New Zealand Treasury, 2013, pp. 20–24).

Now that the Treasury has identified problems with its own guidance material, it is not ideal that some agencies may still be using it. The necessary process of bringing this guidance up to date provides an opportunity to rationalise this advice with the other government guidance that is available, especially the procurement rules. The Government should give one agency the task of updating and combining the current large number of sources of advice. That agency should provide training about the revised guidelines to other relevant agencies and providers.

Providing improved guidance material does not ensure that agencies and providers will actually use it. To address this, once the new guidelines are available, the Government should:

- require agencies entering a contract to sign a declaration that they have used the guidelines; and
- assess agencies' management of contracts with non-government providers in the Performance Improvement Framework reviews of agencies.

R12.1

The Government should give an agency the task of developing a single set of up-to-date guidelines for agencies entering into contracts with non-government providers of social services. That agency should provide training on these guidelines to other agencies and providers.

To encourage agencies to use the guidelines, the Government should:

- provide training about the revised guidelines to relevant agencies and providers;
- require agencies entering a contract to sign a declaration that they have used the guidelines; and
- assess agencies' management of contracts with non-government providers in the Performance Improvement Framework reviews of agencies.

Improving the tendering process

Submitters highlighted several areas that need improvement, including:

- information provision during the tendering process;
- timeliness;
- taking account of past experience when selecting providers;
- standardisation; and
- excessive frequency of tenders (contracts are too short).

Information

Some providers complain that tendering agencies are unwilling to provide additional information after inviting a tender. However, those managing the tender have to manage the tension between not giving information to a single provider that would give it an unfair advantage, and withholding advice that would improve the quality of the bids. Ways to manage this tension include:

- ensuring that RFPs are informative;
- holding briefing sessions for all bidders at which questions can be answered in a way that provides information equally to all; and
- requiring bidders to commit questions about the tender in writing, with the answers circulated to all bidders.

Some providers might want more information during the tendering process so that they can avoid making unnecessary bids. Multi-stage tenders, which enable shortlisting to occur in the early stages, can address this problem. They are more likely to be useful in complex tenders, which are costly to prepare; where the outcomes being sought are difficult to define or there are several solutions; and where there are security or quality reasons for reducing the number of tenderers (Industry Commission, 1996, pp. 338–39).

Timeliness

Agencies need to allow sufficient time for tenderers to develop adequate bids and for the agencies to assess them. The time required is likely to vary between tenders. Agencies have an incentive to plan effectively and to keep to their timetables, in order to maintain service delivery. However, it appears that this is does not always happen, as the Commission has heard that agencies do not always comply with their

own tendering timetables. This could cause significant problems if, for example, providers do not hear whether contracts have been renewed until after they have ended, leaving them without funds to pay staff or meet other obligations. Clearly, the tendering process needs to start early enough for it to be concluded before existing contracts expire.

Options that would strengthen an agency's incentives to run timely tender processes include:

- imposing penalties on an agency that misses deadlines;
- transparent tracking and reporting of tender processes; and
- more frequent OAG audits of contracting processes.

Penalising an agency for not meeting timelines would require establishing a process and authority for determining that a penalty is payable, and perhaps an appeal process. It would also be necessary to provide one agency with the authority to penalise another agency. Funding would need to be considered: if penalties could be paid out of the appropriation for the delayed program, their burden would fall on service providers and their clients rather than on the agency. Further, an agency might simply set up longer initial timelines to avoid the risk of being penalised.

Better reporting of the timeliness of tender processes could occur along a spectrum, from an annual report through to sophisticated real-time tracking and reporting systems. Any approach would need to take into account that providers may cause some delays.

The evidence does not so far indicate that the problem is serious enough to justify the cost of installing a penalty system or sophisticated tracking systems. However, the Commission considers that agencies should, as a minimum, implement a low-cost option: reporting yearly on their compliance with the timelines set out in tendering processes. They can, of course, choose to implement more sophisticated tracking.

Failure to take account of past performance when selecting providers

Some providers have told the Commission that tendering agencies do not take into account the past performance of providers when assessing bids. For example, CNA considers that:

> The system of tendering on-line for social services is deeply flawed. Although a representative of CNA was assured by MBIE staff that 'blind' committees (where the history and identifying features of the RFP writer are kept secret) are against best practice, it is widely known in the Sector that these committees exist. (sub. 31, p. 6)

While past performance is not necessarily a guide to future performance, it is difficult to understand why it would not be considered in a bidding process. The Treasury considers that, after price:

> …performance information is the next best source of information to make judgements about what services to purchase from whom to get the best outcomes most efficiently. … However, from the providers we spoke with it seems that past performance information is not commonly asked for by government when applying for a new tender. (New Zealand Treasury, 2013, p. 13)

Further, if providers know that their past performance will not be considered in future tender rounds, this removes a significant incentive to perform well.

One possible reason for not using past performance information could be to encourage new providers into the industry. However, there are more direct ways to achieve this, such as restricting tenders to new providers. There may also be concerns that panel members may make biased decisions if they rely excessively on their knowledge of the past performance of bidders. These concerns could be reduced by measures – some already in use – such as requiring panel members to declare conflicts of interest; having a mixture of panel members with and without knowledge of the bidders; and publishing the reasons for decisions.

The Commission considers that the past performance of bidders should be factored into tendering decisions, unless agencies have a good reason for not doing so. Therefore, agencies that decide not to take

past performance into account should publish at the start of the tendering process why they are doing this, and why the advantages of this approach outweigh any disadvantages.

Standardising tender requirements

Several participants suggested that standardising tender requirements would reduce tendering costs by standardising information requirements and reporting, and enabling more use of IT (Box 12.6).

Box 12.6 **Standardised tender requirements**

Barnardos suggested that:

> It would be very useful if all RFPs from government agencies use a standardised template (questions and lay-out) and submission process. Slight variations in the way questions are asked, the order of questions and the processes for submitting information lead to significant amounts of time and effort without any real benefit in the quality of information provided.
>
> Government agencies should also consider the costs of the process they ask for. When RFPs insist that multiple copies of responses are provided in bound folders with dividers for each section as well as on USB sticks this creates significant cost for us. There are also costs associated with couriering these packages. Are there more options for responses to RFPs to be provided electronically in order to be able to reduce these costs? (sub. 20, p. 12)

Similarly, Relationships Aotearoa supported standardised expressions of interest, requests for information, and tender and RFP templates (sub. 56, pp. 10–11). According to the Wise Group, "there is little or no adoption of technology that would streamline procurement processes", and there should be "a standardised, secure, online proposal site that respondents populated. In the absence of this most government agencies operate paper based systems" (sub. 41, p. 23).

The Blind Foundation, while acknowledging some improvements, noted that:

> …different departments require different information creating redundancies and inefficiencies. Integrated contracting would be a big improvement on this. Ideally ACC, MSD and MoH would get together and create consistency of questions, quality measure and Outcome contracts based on RBA. The focus should be on measuring quality in addition to the Public Finance Act requirements for efficiency based reporting. Examples of these are measuring the return on investment such as savings through diminished uptake of rest home requirements, medical interventions etc. (sub. 16, p. 30)

However, HCNZH considers that standardisation has disadvantages as well as advantages:

- … moving every NGO provider across all of government to a single set of "framework terms and conditions" risks paving over important differences in contracting arrangements and creating additional complexity.
- The streamlined contracting framework developed with MBIE has in our experience made it more difficult to have discussions with funders about mutually acceptable terms and conditions since funders now lack the discretion to make changes that are in our shared interest and that of our clients. (sub. 51, p. 4)

As described earlier, MBIE is two years into a 3-year project to streamline contract management. Standardising terms and conditions should also simplify tendering processes, although it will not necessarily address all of the concerns outlined above. There is also a Cross Government Accreditation Working Group (CGAWG), whose aims include reducing the compliance burden for providers by reducing the duplication of accreditation activity for agencies. During the course of its work, the CGAWG has become aware that the burden of compliance extends well beyond accreditation, with monitoring and reporting requiring "large amounts of provider resource". It suggests that these functions should be approached from the perspectives of providers rather than those of agencies (sub. 132, p. 3).

The Commission agrees with MSD's view that "more work is needed to streamline contracting across government" (sub. 72, p. 4). At the same time, standardisation should not be mandatory, as this would rule out negotiation of case-specific arrangements that meet the shared interests of the parties. It could also

have unintended side effects, such as encouraging additional use of schedules to contracts, containing prescriptive terms and conditions that are not included in the standard contract forms and leading to more, rather than less, variation between contracts.

Less frequent tenders through longer-term contracts

Contracts with social service providers often have a one-year duration and many providers consider that contracts are too short and tenders too frequent. The Tauranga Budget Advisory Service proposed that there be:

> …longer term contracts (at least three years like High Trust) subject to annual monitoring. Too many good staff are lost especially to the state sector due to insecurity of work tenure, career progression and poor pay. (sub. 57, p. 2)

The Wise Group considers that long-term relationships and contracts – with built-in flexibility to adapt to service environments which change over time – are a critical success factor for effective commissioning and contracting (sub. 41). Care NZ believes that longer-term contracts must be considered, especially if providers are performing well and are able to demonstrate effectiveness (sub. 99). Community Wellbeing North Canterbury Trust believes that multi-year contracts assist with service delivery and workforce continuity (sub. 112). The Treasury's discussions with providers suggested that short-term contracts are an important barrier to achieving better investment in outcomes (New Zealand Treasury, 2013).

Longer-term contracts are, however, not always better. Rather, the appropriate length depends on factors such as:

- the service to be delivered;
- the views and track record of the NGO that will deliver the service;
- the lifecycle of the relevant policy;
- the contracting capability of the government agency;
- negotiation costs; and
- value for money (New Zealand Treasury, 2009).

The life of the capital equipment used to provide the service, the staff training required, and the extent to which capital and training are specific to the service, should be considered. It is also likely, as the Wise Group suggests, that longer-term contracts could be developed when there is "high trust" (sub. 41, p. 3).

The brevity of many contract terms does not prove they are all too short. However, as noted earlier, agencies may be attracted to short-term contracts to reduce their risk exposure. Further, the tendency to introduce new programmes creates a reluctance to make long-term contracts, because agencies do not know what will be coming next. And because agencies are usually the only purchasers, with several vendors to choose from, they can impose some costs of short-term contracts (such as additional staff turnover and training costs) on service providers and their clients. This could result in shorter-term contracts than would emerge if bargaining strength were more evenly balanced.

Mandating a default contract period of, say, three years, with an obligation on agencies to publish reasons for choosing shorter periods, would lengthen contract periods. However, pushing contracts towards a standard that is selected arbitrarily may not be efficient, even if contracts are too short (on average) at the moment.

A preferable option, which would set consideration of contract length in a broader context and avoid arbitrary standards, would be for the Government to require agencies to develop an explicit risk management framework, in consultation with providers. Indeed, this is inherent in MBIE's contracting framework, although it is easily overlooked.

The Australian Productivity Commission has suggested that developing risk management frameworks would help to build a common understanding of the risks involved in providing services, and provide clarity about

who bears those risks. It would also clarify the appropriate tools for managing risks, only one of which is contract duration, and would help to identify the risks of short-term contracts. For instance, contracts that are not matched to the length of period required to achieve outcomes create a risk of non-delivery.

Agencies that develop risk management frameworks are likely to improve their management of risk, and less likely to rely on instruments such as short-term contracts to manage it. As noted above, agencies should also take into account factors such as those outlined by the Treasury, as well as the incentives of providers to invest in staff capabilities and capital equipment that are relevant to supplying the contracted services involved, when determining contract duration.

R12.2

To improve tendering practice, government agencies should face new requirements to:

- undertake reasonable consultation with providers and clients during the pre-contract phase;
- report yearly their compliance with tendering timelines;
- take account of the past performance of bidders when assessing bids. If agencies intend to ignore past performance, they should publish at the start of the tendering process the reasons why they are doing so;
- consider standardising tendering requirements, but standardisation should not be mandatory;
- develop, in consultation with providers, a risk management framework that identifies risks and how best to allocate them; and
- set contract duration in the context of their overall risk management framework, and taking into account factors such as providers' incentives to invest in relevant capabilities and equipment.

Government agencies should publish their reasons for selecting a particular contract duration.

Contract design

This subsection considers opportunities to improve contract design through contracting for outcomes; increasing the use of payment for outcomes; imposing penalties for under-performance; reducing the complexity of reporting; and encouraging investment in innovation.

Contracting directly for outcomes

It is more feasible to design contracts around outcomes if the outcomes can be identified, measured and attributed. Section 12.3 demonstrated the diversity of views about whether it is possible to do this.

The Treasury Guidelines noted that contracting for outcomes is possible where:

- the service provider controls the outcome and can be held accountable for achieving it;
- there is a good working relationship with a provider NGO with a good track record;
- the purchasing agency has the contractual and policy expertise to manage this type of approach; and
- there is high-quality information to support the contract (New Zealand Treasury, 2009).

However, the Treasury has recently adopted a more positive view about the potential for contracting for outcomes:

> Literally applying this [2009] guidance when considering contracting for outcomes will rarely lead to the conclusion that a true outcomes contract is appropriate. Government needs to recognise and acknowledge that attribution to a single NGO would be near impossible. Outcomes do need to be

> able to be realistic for the NGO, and contribution to final outcomes does need to be measurable. Outcomes of this nature are not impossible to work through, despite attribution issues. However, the significance of this process shouldn't be understated. What the outcomes being sought are and what level of contribution can be expected from NGOs towards these outcomes, will both need to be determined. (New Zealand Treasury, 2013, p. 24)

There is considerable effort underway to make contracts more outcome-focused. The combined use of different measures – including outcomes – is a feature of MSD's RBA framework (Box 12.7). In addition to the RBA framework, as part of its Community Investment Strategy, MSD is conducting trials with a small number of providers to develop an outcomes framework and performance measures. The trials cover some existing services in the following areas: budget services, social workers in schools, Family Start, functional family therapy, integrated health and social services for families (building on Plunket well child services), and intensive wrap-around family social work. (MSD, 2014c)

The purpose of the trials is to develop standard methods and models for definitions and measurements, and methods of data collection and management. Measuring outcomes and explaining changes in them is not easy where there are multiple variables that could contribute to a particular outcome. Experiments such as these trials are useful to test how well existing services contribute to the outcomes sought. Youth Services is another example of contracting for outcomes where payment for performance has been introduced (Chapter 4).

Box 12.7 **Results-Based Accountability**

> RBA involves two types of accountability (population and performance) and three types of performance measures (how much did we do? / how well did we do it? / is anyone better off?). It employs a variety of means, such as customised meeting agendas, team performance development and reviews, and strives to follow the overarching goal of 'always doing better than our own history'. This system of performance measurement has been in place in social service contexts in New Zealand as well as internationally, and has been successful in organisations of varying size, from large government agencies to small community groups and recreational programmes. (Dunedin Community Law Centre, sub. 48, pp. 6–7)

Notwithstanding such activities, PwC recently observed that, while service providers in New Zealand are motivated by what they are trying to achieve (their outcomes), this is not always formalised in their management systems:

> … most service providers do not have intervention logics or defined outcomes, let alone the measurement tools and systems which will allow them to track progress against those outcomes. (PwC, 2014, p. 7)

PwC considers that contracting for outcomes will be most appropriate where:

- client issues and needs are relatively homogenous;
- services are highly targeted;
- services are evidence-based, in the sense that the relationships between inputs, outputs and client outcomes are relatively well understood;
- services providers are sufficiently diversified that they can absorb delivery risk; and
- exogenous factors do not prevent or inhibit outcomes. (PwC, 2014, pp. 7–8)

This last condition appears excessively restrictive if "inhibit" is interpreted to mean any degree of influence, even quite minor.

Providers point out that moving towards contracting for outcomes would require additional resources, time and data (Box 12.8).

Box 12.8 **Moving towards outcome measurement and contracting**

Supporting Families in Mental Illness considered that this approach is new for many organisations, which would need additional resources to implement it (sub. 49, pp. 12–13). The Platform Charitable Trust suggested that moving to contracting for outcomes would require time and cultural change, as well as extra resources:

> … some existing contract reporting requirements may no longer be necessary or useful in an outcomes based contract, in which case organisations will need to be given time to transition their staff and their IT systems to accommodate a new way of reporting.
>
> Such a significant shift in approach will also require a significant shift in mind-set. The establishment of an outcome-focused health and social sector will rely on major culture change at multiple levels in all parts of the sector. The government will need to be prepared to invest in a significant change management process that includes training and support for those community providers that have not had the benefit of being involved in the implementation of Results based Accountability (RbA) agreements funded by the Ministry of Social Development. (sub. 45, pp. 9-10)

The Blind Foundation argued that improved data collection is needed to facilitate outcomes reporting:

> Outcomes measured in terms of population benefit based on data provide the assurance that services (offered through programmes) are working toward the betterment of the whole community. Regular data acquisition from rest homes, hospitals, social groups, hospitals, et cetera, can inform outcomes. For example, Blind Foundation rehabilitation can significantly reduce the incidence of accidents for our clients. This can be measured through ACC data and hospital reports. (sub. 16, p. 32)

The Health and Disability Network noted the differences and challenges of defining outcomes in the health and social services sector (compared to say engineering or manufacturing), and that a "one-size-fits-all" approach should not be imposed on all providers (sub. 70, p. 4). Relationships Aotearoa suggested that the focus should be on client outcomes and should recognise the synergies between different services:

> We recommend the ongoing use of a RBA framework as good practice, however there is a missed opportunity to take a truly client centred approach without compromising accountability. This could be achieved by reporting client outcomes across all contributing contract partners, as it is often the synergies of different pieces of work with a client or family that produce the greatest positive results. (sub. 56, p. 9)

Homebuilders Family Services, on the other hand, considered that outcome measures need to be localised:

> Successful evaluation recognises differences between people, places and programmes. The requirement of differentiation raises doubts over the efficacy of a single common outcome framework such as RBA promoted by the current government. Outcome goals and measures should be developed and established where the delivery takes place. It should be based on effectiveness of service delivery or a determinant of programme shortcomings as the basis for improvements and not just as a reporting tool. Reporting with this framework can create considerable work for the provider without the benefit of activating any real learning and improvements in service delivery. (sub. 38, p. 2)

Contracting for outcomes could increase the benefits from social services, while also reducing detailed prescription in contracts and its dampening effects on innovation (Chapter 7). The MSD trials are important, and the Department and other social service agencies should monitor their progress closely. They also should explore the potential for developing contracting for outcomes in their own portfolios, considering factors such as those listed by PwC. These trials should also help to reveal the costs of developing outcome measures; how these costs can be managed; and the types of circumstances (eg, where outcomes cannot be attributed) in which contracting for outcomes is not effective. Looking at the costs and benefits of such contracts will help agencies to focus on introducing them where they are most likely to yield net benefits.

In some cases where the costs of developing contracts based solely on outcomes exceed their benefits, there may be scope for a mixed approach. The Treasury argues that in these circumstances a mixed model or contracts for inputs and outputs may be more appropriate. Stepped funding for outputs on the path to outcomes can also be explored depending on the circumstances. However:

> [w]hen an outcomes contract is not feasible, it may also be appropriate to come back to the previous question of whether government should contract out for the delivery of the outcome or deliver directly. (New Zealand Treasury, 2013, p. 24)

Developing outcome measures and building them into contracts requires new capabilities and costs that may not be warranted for small contracts. This points towards focusing efforts on larger contracts, and amalgamating smaller contracts so that moving them to an outcome basis becomes worthwhile. Further, experimentation around what achieves outcomes would be encouraged by forms of agreement that allow changes over time in what is measured, and a greater degree of trust, with measures to encourage sharing of what has been learned.

R12.3 Departments, agencies and non-government providers should expand the use of contracting for outcomes where it is efficient to do so.

Structuring contract payments

Given the level of funding, how these funds are paid to providers will affect their incentives. Payments made for delivering inputs encourage service availability, but do not necessarily achieve desired outcomes. Payments for outputs such as training courses encourage the provision of such courses, rather than securing an outcome such as placing people in jobs.

Payments for outcomes provide strong incentives, and can be a useful feature of contracting for outcomes. However, even these, can be poorly designed. For example, paying job search providers for the number of unemployed people placed in jobs for three months encourages them to concentrate on easy-to-place people who might have found jobs without assistance, and to "park" those who have difficulty finding work without assistance, or to help them to find jobs that might last little longer than three months. As mentioned above, the solution to this problem is to reward providers for the value added for individual clients, taking account of their differences. For example, a more useful outcome indicator may be "sustained work in a role the economy requires on a wage sufficient to provide for a family" (Haldenby, Harries & Olliff-Cooper, 2014, p. 31).

Further, payments should be structured to encourage providers to achieve the desired outcomes, and to avoid incentives for them to park difficult clients. Experience in other areas (eg, in employment services in Australia, as described in Appendix B), suggests that structuring payments is a significant ongoing task. Some agencies will need to build their capability to structure outcome-related payment arrangements. This could be achieved in several ways, including, for example, through a central department (such as the Treasury) or through an agency that administers many contracts (such as MBIE or MSD). Or each agency that administers contracts could develop its own expertise, perhaps using some improved government-wide guidance material. The proposed Office of Social Services (Chapter 14) could advise the Government about the best arrangement and how often it should be reviewed.

R12.4 The Government should improve the capabilities of agencies to contract for outcomes, ideally with payments for outcomes achieved in those contracts.

Reducing unnecessary reporting

As noted earlier, providers are concerned about the number and complexity of performance reports. The Treasury Guidelines noted that ways to reduce unnecessary costs while still receiving assurance about the effective use of public money include:

- realism about the number of reports required from NGOs;

- simple and meaningful performance indicators;
- standard reporting templates;
- structuring monitoring arrangements according to risk, as indicated by factors such as the nature of the service, the track record of the NGO, the amount of money involved and perceptions of risk; and
- timely feedback on monitoring to NGOs, to help them understand its use (New Zealand Treasury, 2009, p. 39).

The Guidelines point out that agencies should make their own informed judgements about monitoring arrangements, but should document the basis for their assessments.

Some providers, on the other hand, support a standardised approach. The Wise Group proposes that "a project should be undertaken to review, standardise, simplify and reduce the volume of reporting for the NGO sector" (sub. 41, p. 3). Similarly, Barnardos supports a standardised approach to several dimensions of contracts, including reporting:

> It would also be good if there were common, standardised systems and tools that support multiple purchasing options across all government agencies. This includes having common templates and processes for: invoicing – how it occurs and the information required reporting and monitoring – standardised templates, standardised questions, common ways of collecting and reporting client data and information a common approach to outcome measurement. (sub. 20, p. 12)

Given that many reporting costs are borne by providers, agencies may seek more reports than are justified by the risks they seek to mitigate. Barnardos advocates a risk-based approach to monitoring, and more emphasis on sharing the lessons across providers of similar services (sub. 20, pp. 19–20). The Commission agrees with Barnardos and with the Treasury's view that agencies should structure their monitoring arrangements according to assessments of risks and document the basis for their assessments (New Zealand Treasury, 2009). Therefore, the Commission proposes that government agencies should be required to:

- adopt a risk-based approach to monitoring contracts as part of their risk management framework; and
- publish the basis for their assessments of monitoring arrangements, including an analysis of the costs and benefits to all parties.

R12.5

Government agencies should:

- adopt a risk-based approach to monitoring contracts as part of their risk management framework; and
- publish the reasons for their chosen monitoring arrangements, including an analysis of the costs and benefits to all parties.

Improving capabilities

Government agencies that run tenders and design and manage contracts need many skills. These include cost-benefit analysis, risk management, needs analysis, development of performance management frameworks (including outcome measurement), contract design, running tendering processes, setting up and operating monitoring systems, and evaluation. They also need financial and legal expertise.

The environment within which contracts are negotiated is becoming increasingly complicated. This is placing a premium on contracting skills that are also in demand in the private sector, posing a retention challenge for the government. To maintain and develop contracting capability, the Government should ensure that contract management is a career path that is valued and respected. It should also consider building a community of practice arrangement, which is committed to building and sharing good practice across the social services system. Chapter 14 discusses responsibility for leading this arrangement.

The State Sector Act makes State Services Commissioners and agency chief executives responsible for developing senior leadership and management capability throughout the state sector, and the Crown Entities Act obliges Crown entities to include in their statement of intent information about "how the entity proposes to manage the organisational health and the capability of the entity" (s 141). Within this legislative context, the Commission has previously proposed that the State Services Commission (SSC) should develop a set of minimum expectations for promoting regulatory capability, and require that the statements of intent from Crown entities demonstrate how they will meet those expectations (NZPC, 2014b).

Given the significance and number of contracts that agencies manage, this proposal also has merit for contract management. In this case, the SSC could develop expectations that agencies need to demonstrate, such as:

- the steps they are taking to ensure staff stay up to date with developments in contract management, including access to training and accreditation opportunities; and
- how they are developing a career path in contract management.

R12.6 The State Services Commission should develop a set of minimum expectations around the promotion of contract management capability, and require the statements of intent of relevant agencies to demonstrate how they will meet those expectations.

13 The Māori dimension

Key points

- The objectives Māori as a client group have for social services are broader than just effectiveness and efficiency – social services have an important role to play in "Māori succeeding as Māori". In this context it includes Māori being able to exercise duties of care that arise from tikanga.
- Māori are disproportionately represented in the client base of services that target and aim to help those at risk of poor outcomes. Although some other groups also have poor outcomes, the Treaty of Waitangi dimension adds weight to empowering Māori groups.
- The development aspirations of Māori, the desire to improve the outcomes of whānau, and the tikanga around manaakitanga, whānaungatanga, and rangatiratanga mean that iwi and other Māori groups are obvious candidates for further devolution of the commissioning of social services.
- Enabling greater rangatiratanga within social services inherently requires the Crown to step back from "deciding for" and often "doing for" Māori. Yet if the Crown steps back too far, or in the wrong way, then it risks inappropriately leaving iwi to deliver the Crown's article three duties. What matters here is not so much whether any given activity is a kawanatanga or rangatiratanga responsibility, but instead who should hold mana whakahaere over that activity (translated variously as *the power to manage*, *governance* or *authority*) to achieve the objectives of both parties.
- There are a number of steps involved in commissioning social services. In the examples considered by this inquiry different Māori groups preferred to be involved in some steps but not others. Although there is some interest, in practice it may take some time for such involvement in commissioning to be fully realised. It is appropriate that Māori determine the pace and extent of their involvement.
- It is important that the process of determining who the Government should partner with in social services is an open one. It needs to allow for the various claims to representation and influence from Māori organisations to be heard and considered fairly.
- One process that has been used is the Treaty settlement process. However, the Treaty settlement process is too inflexible and too narrow to realise the potential for devolving commissioning to Māori effectively. A better process needs to be based on:
    - the government providing a standing opportunity to Māori groups to propose how they might like to be involved in commissioning;
    - the nature of the proposed process coming from Māori, rather than being a model that Māori groups are co-opted into, or have imposed on them; and
    - the constraints that government places on what is possible need to be reasonable.
- Data analytics may hold some particular promise for Māori to achieve greater involvement in commissioning because future welfare liability, though an unpalatable language for some, opens up new possibilities for negotiating funding transfers.
- There may also be a case for some devolution to existing self-identified Māori communities – although care needs to be taken not to split up the available funding too much.
- There are many difficult issues to be worked through to determine how to fund devolved organisations, but several broad options are available.

This chapter continues on the strong theme in this report of empowering clients. It extends this theme to empowering Māori groups. Chapter 4 noted that an effective social services system needs to be responsive to the aspirations and needs of Māori and Pasifika people. The objectives that Māori groups have for social services are broader than just effectiveness and efficiency – social services have an important role to play in "Māori succeeding as Māori". In this context it includes Māori being able to exercise duties of care that arise from tikanga.

In this chapter:

- section 13.1 outlines some of the social outcomes that Māori experience, and describes the shift from a "deficit" approach to an empowerment or development approach;
- section 13.2 briefly discusses the importance of the aspirations of both individuals and collectives;
- section 13.3 describes briefly the duties of care within tikanga Māori;
- section 13.4 discusses the range of Māori organisations that operate in social services;
- section 13.5 outlines the Treaty dimension in social services;
- section 13.6 introduces the case for creating more opportunities to devolve social service commissioning to Māori;
- section 13.7 examines some of the ways that iwi have chosen to be involved in the commissioning of social services;
- section 13.8 discusses some ways that data analytics may enable better negotiations about devolving commissioning; and
- section 13.9 concludes with some preliminary observations on funding options to support greater devolution of commissioning to iwi and Māori.

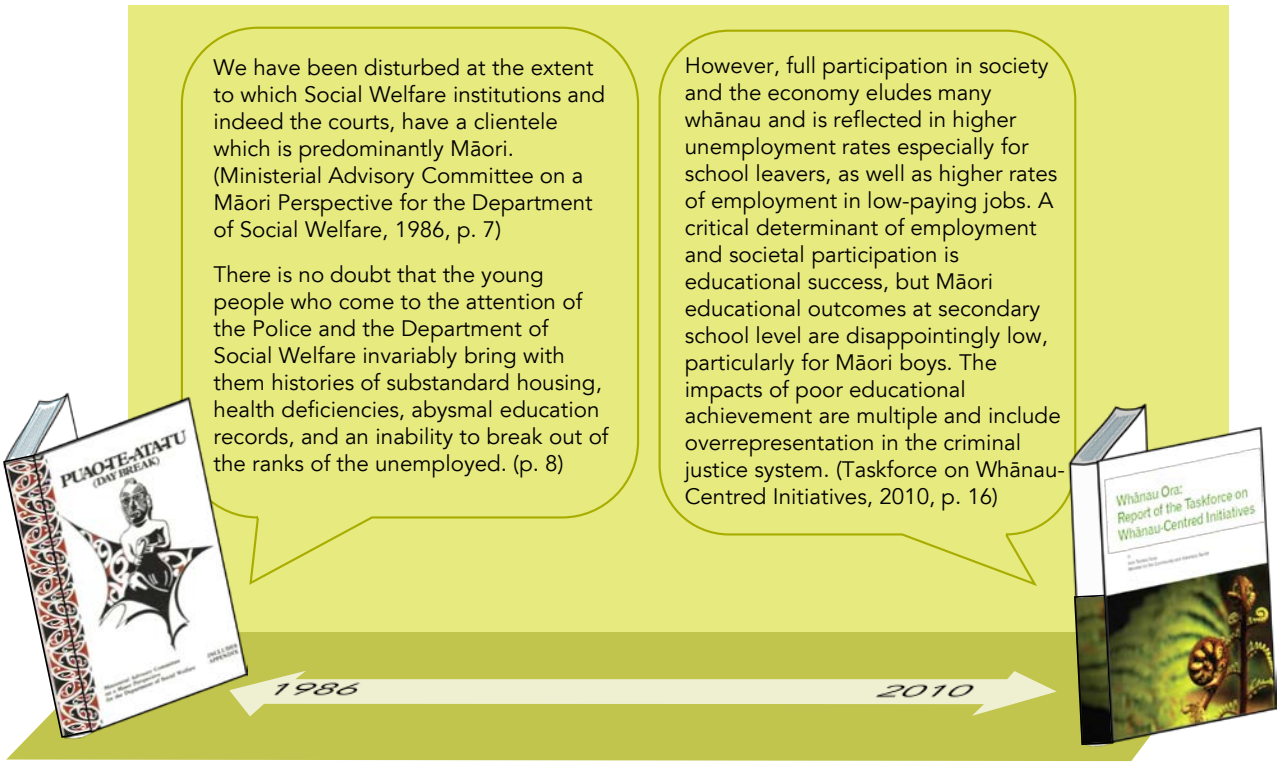
13.1 From deficits to empowerment

Māori are disproportionately represented in the client base of services that target and aim to help those at risk of poor outcomes. This means they are clients of particular interest to the inquiry. MSD (2014, p. 25) noted that Māori make up:

- 50% of children in the custody of the Chief Executive
- 60% of young people in a youth justice residence
- 48% of young people on Youth Payment or Young Parent Payment
- 46% of sole parent support recipients
- 34% of job seeker support recipients.

This is despite Māori making up only 14.9% of the New Zealand population in the 2013 census. The similarity is stark in how two reviews 24 years apart described the poor social outcomes that Māori experience (Figure 13.1).

Figure 13.1 Characterisations of Māori social outcomes, 1986 and 2010



Source: Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare, 1986; Taskforce on Whānau-Centred Initiatives, 2010.

Focusing on "deficits" alone though ignores the strengths that exist within Māori communities to create change for themselves. The Whānau Ora approach (discussed further in Appendix C) is explicitly based on achieving Māori development through building on the strengths of whānau.

A recent report on the experience of Australian Aboriginal peoples and Torres Strait Islanders came to a similar conclusion:

> The objectives of overcoming deficits, disadvantage and poverty immediately invoke the standard tools of the welfare state: top-down government intervention through income transfers and passive service delivery. Individual, family and collective agency is relegated to the sidelines, displaced by the strategies, rules and procedures of the bureaucracy. Failure to achieve progress is taken as evidence of the need for increased funding, further government intervention and better 'coordinated' programs. In contrast, with development as the goal, the solutions are fundamentally different…
>
> Instead, a development approach foregrounds the role of individual, family and collective agency and responsibility—the role of Indigenous empowerment. Development is impossible without expanding individual choice, responsibility and capability. The practical implications of this are that all policies and programs must support efforts to build capability, self-reliance, aspiration and opportunity, and increased choice. (Empowered Communities: Empowered Peoples, 2015, p. 13)

Although some other groups within New Zealand also have poor outcomes, the Treaty dimension adds weight to empowering Māori as a group. Historically, the power imbalance between state-led provision and Māori communities has had negative consequences for Māori culture. Social services often interact with people in the most sensitive, personal, or intimate parts of their lives. Who is empowered to make decisions in these contexts is immensely important for Māori groups. For example:

- education services shape how young people see the world, and explore questions of identity; and
- child protection, especially where children are removed from their family and placed in the care of another group, can have important consequences for cultural transmission.

Taken together, the importance of enabling Māori to exercise tikanga, the potential for a more effective response to negative social outcomes, and the need for decision-making processes to better reflect the

Treaty partnership, make a strong case for empowering Māori communities through providing opportunities to exercise greater decision rights.

13.2 Individual and collective aspirations

Most of this chapter will focus on the involvement of Māori groups in decision making. It is important at the outset though, to acknowledge the place of individual and whānau choices.

Like all people, Māori have many different kinds of association (such as professional, personal, religious, and cultural) that shape their identities and choice of lifestyle. The diversity of identities that Māori people can hold, and therefore of the identities they express, is part of what can generate innovation in the kinds of governance arrangements used to create opportunities to participate in decision making (section 13.7 outlines some of these arrangements). The Māori Statistics Advisory Committee (MSAC) made a similar point in its submission to the New Zealand Data Futures Forum (NZDFF):

> The NZ Forum needs to understand the complexity of what it means to be Māori in modern society; the notions of Māori public and private; urban Māori; whakapapa, and so on. In short the understanding of Māori needs to be in a sophisticated and nuanced manner.
>
> This type of nuanced understanding of Māori would allow the Forum to understand the cultural construction of the individual versus the collective as determined by various Māori communities.
>
> The debate about agreements needed in relation to Intellectual Property and Cultural Rights would fall out of the nuanced understanding of Māori and the various Māori communities. (MSAC, n.d., pp. 1–2)

The social services system needs to enable Māori people to make choices about how they wish to engage with social services. It needs to have a focus for Māori that is broader than just engaging with groups at a governance level, but also enables Māori people to make choices about what options are right for them – which can include engaging in Te Ao Māori.

Although this chapter is largely focused on involving Māori communities in social services decision making, earlier commentary in this report about the importance of client choice is also relevant (Chapter 11). Enabling clients to have more say in decision making about social services that affect them is, for instance, consistent with a Whānau Ora approach to building whānau rangatiratanga.

13.3 Duties of care within tikanga Māori

A number of duties of care arise from tikanga that Māori communities wish to be able to express effectively through social services. The key concepts or duties that were raised with the Commission were:

- whānaungatanga;
- manaakitanga; and
- rangatiratanga.

These terms are briefly explained below.[87]

Whānaungatanga

The Waitangi Tribunal has explained whānaungatanga as a broad kinship concept that acknowledges inter-connectedness between people and the environment, through whakapapa (2011, p. 17). It is from this inter-connectedness that specific obligations of care arise. Importantly, these duties are not just to direct kin; they can arise also through the inter-connectedness of all people in Māori cosmology.

Manaakitanga

Manaakitanga is "the process of showing respect, generosity and care for others" (Te Aka Online Māori Dictionary, n.d.). It has an overtone of hospitality towards those outside a group you identify with. In its

[87] Different iwi or rōpu may have a different understanding or use of these terms. The discussion is intended to be descriptive for readers unfamiliar with the general concepts – rather than definitive. The Commission makes no attempt to define these terms on behalf of Māori.

simplest definition (hospitality), all Māori groups or whānau will exercise manaakitanga at some time. In the case of groups that represent mana whenua, they may feel an extra obligation to those who live within their rohe (*area*), regardless of whether they are part of their iwi or hapū:[88]

> Mana whenua has a role distinct from service provision. It is one that monitors the quality of services provided to all whanau in their rohe. It carries obligations and expectations that government agencies, urban Maori mataawaka groups or mainstream organisations do not have; that broadly incorporates whanau and environmental wellbeing. The kaitiaki and manaaki responsibility of Mana Whenua is intersectoral and intergenerational, carried by their ancestors as well as their future descendants. (Te Roopu Waiora, sub. 97, p. 4)

Of course, it would be unfair and unrealistic to suggest that urban iwi alone are responsible for the wellbeing of mataawaka populations.[89] The bonds of whakapapa mean that iwi retain an interest in their members who live outside their rohe (often referred to as taurahere populations). Particularly in the case of urban populations, there will also be other groups, such as Māori urban authorities, that take an interest in the wellbeing of mataawaka populations. And of course the Crown retains its Article Three duties.

Rangatiratanga

Rangatiratanga can be translated by words such as leadership and sovereignty. For social services, the definition of rangatiratanga that is most relevant may be the one used in the Wai414 report by the Waitangi Tribunal. The claim was in the context of social services. The Tribunal found that:

> Rangatiratanga, in this context, is that which is sourced to the reciprocal duties and responsibilities between leaders and their associated Māori community. It is a relationship fundamental to Māori culture and identity and describes a leadership acting not out of self-interest but in a caring and nurturing way with the people close at heart, fully accountable to them and enjoying their support. A Māori community defines itself by a relationship of rangatiratanga between its leaders and members; rangatiratanga gives a group a distinctly Māori character; it offers members a group identity and rights. But it is attached to a Māori community and is not restricted to a tribe. The principle of rangatiratanga appears to be simply that Māori should control their own tikanga and taonga, including their social and political organisation, and, to the extent practicable and reasonable, fix their own policy and manage their own programmes. (The Waitangi Tribunal, 1998, p. xxv)

Working with the definition of rangatiratanga used in Wai 414, mana whenua groups will exercise rangatiratanga for their community. This will give them a particular interest in how services and programmes are delivered to their population. Although not necessarily formally recognised by government, the claim that mana whenua groups (often iwi rūnanga mandated through the Treaty settlement process) hold rangatiratanga, is relatively uncontroversial. But the definition of rangatiratanga used in Wai414 envisages that groups other than mandated Treaty settlement rūnanga can exercise rangatiratanga, as it derives from Māori communities rather than particular organisations as well.

At different times, and in different ways, Māori organisations relevant to social services may wish to exercise some of these duties. Section 13.4 below describes briefly these organisations.

13.4 A diverse range of Māori organisations are involved in social services

The last 30 years of Māori service delivery development has changed the provider landscape significantly:

> …devolution policies, accompanied by a separation of funder and provider roles and greater contestability among providers, resulted in a major transformation that has generated new systems of health care, education and social work. The advent of a greatly expanded Māori workforce in schools, hospitals, prisons and welfare agencies has significantly altered standards of practice and made services more responsive to Māori. Māori provider organisations have also emerged so that there is greater choice. Whānau can now opt for Māori language immersion education, Māori health care providers, Māori social services – or for mainstream providers. (Taskforce on Whānau-Centred Initiatives, 2010, pp. 19–20)

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[88] The iwi or hapū who are recognised as deriving mana (*authority/status*) from their ancestral connection to that particular stretch of land or coast.

[89] Refers to the Māori population in one area that is connected to an iwi or hapū who holds mana whenua somewhere outside that area.

There is now a wide range of Māori organisations relevant to social services for Māori. Not all of these are "service providers" as such. As Dame Tariana Turia pointed out in the context of Whānau Ora:

> …Whānau Ora does not need to be delivered by a service provider… there are other organisations, family collectives, family trusts and marae who already deal with people in family settings who could be doing really important jobs. (Hon. Tariana Turia; quoted in Bootham, 2014)

Within this range of organisations it is possible to see some loose categories.

- *Mandated iwi rūnanga:* These are tribal governance entities that have received a legal mandate to negotiate Treaty settlements with the Crown. They may have social service provider arms attached to them.
- *Iwi rūnanga, Māori or tribal trust boards that are not Treaty settlement bodies:* These are tribal governance entities established for a variety of purposes other than settlement negotiations. Some have been established by Acts of Parliament (such as Māori Trust Boards).
- *Non-aligned Tangata Whenua service providers:* Some social service providers have developed to a considerable size, serving the needs largely of a particular population group connected by whakapapa. These service providers may not be formally connected to the tribal authority.
- *Mataawaka (including urban Māori) organisations:* There are some Māori communities and associated management structures that have developed to serve the needs of mataawaka populations – commonly groups of urban Māori outside the rohe of their iwi, and who may no longer know who their iwi is.
- *Other organisations in Māori civil society:* These can include organisations such as those referred to by Hon. Tariana Turia above.

These organisations either provide social services to Māori communities, or represent those communities. Often, the same organisations can reasonably be said to do both. The principle of rangatiratanga means that Māori should be the ones to choose who represents them in decision-making processes (see the definition in section 13.3).

There is no consensus within Māoridom about the relative roles of iwi and other organisations. Some take a strong line that it is the role of iwi rūnanga to lead, and their role alone. Others see opportunities for a range of Māori organisations to exhibit leadership in social services.

This debate is one to be resolved among Māori. It does, however, leave government agencies with some challenges in the meantime. Those agencies can sometimes find themselves having to pick between the claims of different Māori organisations to leadership.

13.5 What is the Treaty dimension?

Kawanatanga and good governance

The debate about commissioning and delivering social services to Māori is often shaped in Treaty language. This can make it hard to distinguish between Māori challenges to government because of the latter's poor processes, and specific actions that need to be taken due to the Treaty. Where good process is adhered to, there will generally be greater clarity about any specific actions that need to be taken to address Treaty concerns. For example, good consultation involves:

- identifying affected parties (including communities);
- providing them with sufficient information about the proposal under discussion;
- consulting with them before a decision has been taken (ie, with an open mind); and
- allowing sufficient time to consult, and providing consultation forums appropriate to the group being consulted (for Māori, this may include recognising the importance of kōrero kanohi ki te kanohi).

Good consultation should occur as a matter of good practice – although the partnership embodied in the Treaty is a powerful argument both for better practice and potentially for further actions as well. Where there is some uncertainty about how Treaty duties can be met, often good process is a starting point from which Crown agencies can proceed. In one sense, this is the Crown exercising kawanatanga under Articles One and Three of the Treaty effectively. Where the Treaty motivates particular actions, such as consulting when a government agency might otherwise not have, these duties are in addition to, rather than a substitute for, ordinary good process.

F13.1 Where the Treaty places duties on the Crown to take particular actions in social services in relation to Māori, these duties are in addition to, rather than a substitute for, ordinary good process.

Further actions to address Articles Two and Three

Starting from the foundation of good process, additional actions relevant to social services can be considered on the basis of Articles Two and Three of the Treaty.

The Waitangi Tribunal has not yet determined through its inquiries the application of Article Two to social policy. Nor does the Commission intend to undertake such a task. Inquiry participants, however, did have some expectations of how Article Two is relevant to the delivery of social services.

The Principle of Active Protection of Māori Interests by the Crown arises from Article Two. Failure to provide this active protection, leading to loss of tāonga (including natural resources and culture) are the basis for much of the redress through the Treaty settlement process. But active protection is also a forward-looking duty, and may include Māori interests in their own development (both social and economic).

Article Two also guarantees the protection of tino rangatiratanga in the Māori version of the Treaty, commonly translated as self-determination. The ability of Māori to determine their own social and economic development is therefore sometimes couched as a Treaty right under Article Two.

Article Three requires that Māori receive equal rights and privileges. In this case, Article Three has been seen to create duties on the Crown to provide equal access to services, and consideration for further assistance where poor outcomes or potential opportunities warrant it. The debate around Article Three mirrors the debate about "equality" in New Zealand generally – does it refer to equality of opportunity, or equality of outcome? At this stage, there is no clear path through that debate. Typically, the Crown's duty of active protection of Māori interests under Article Two is used to make the particular case for improving Māori social and economic development.

The Commission has not attempted to address all possible Treaty issues in social services. As well, reiterating the point made in Chapter 2, the Commission does not advocate that financial redress through Treaty settlements in any way changes government responsibilities for funding or delivering social services. The particular issue examined in this inquiry is providing for the aspirations of iwi and Māori to be involved in the commissioning of social services. This issue has an important Treaty dimension – the balancing kawanatanga and rangatiratanga in decision making on social services.

The commissioning challenge – making space for rangatiratanga

As iwi and other structures within Māoridom have increased opportunities to lead their own economic and social development, boundary issues arise between the role of iwi and the role of the state. In particular, enabling greater rangatiratanga within social services inherently requires the Crown to step back from "deciding for" and often "doing for" Māori. Yet if the Crown steps back too far, or in the wrong way, then it risks inappropriately leaving iwi to deliver the Crown's Article Three duties.

Social services systems that are publicly funded or based in the institutions of government will serve a mixture of both kawanatanga and rangatiratanga interests (which is consistent with New Zealand being a partnership). However, sometimes the debate can get stuck on whether a particular role, activity or responsibility is a kawanatanga or rangatiratanga responsibility.

The Treaty means that the Crown will always hold ultimate liability for its Article Three duties. But separate to those duties is the range of activities and structures the Crown uses to fulfil them. Sometimes, iwi might see playing a role in managing those activities as facilitating their own aspirations for development, or useful for discharging their duties of manaakitanga, rangatiratanga, or whānaungatanga. What is at issue here is not so much whether any given activity is a kawanatanga or rangatiratanga responsibility, but instead who should hold te mana whakahaere (translated variously as *the power to manage*, *governance* or *authority*) to achieve the objectives of both parties (again, consistent with New Zealand being a partnership).

Where the Crown has exercised te mana whakahaere, its Article Three duties have received emphasis but rangatiratanga has not always flourished. Creating opportunities for Māori groups to exercise mana whakahaere in delivering social services has the potential both to improve outcomes and lead to more effective exercise of rangatiratanga. This supports creating a trend towards more devolution of commissioning decisions to Māori.

13.6 Devolving the commissioning of social services to Māori

The Commission has advocated in previous chapters for increased devolution (where appropriate) in commissioning social services. Devolution can increase the empowerment of the users of social services, or communities that have a high interest in social services. The case for community empowerment is strongest where some aspect of how social services are delivered disempowers an identifiable population group, or where the outcome sought (such as changes in social attitudes toward unhealthy lifestyles) requires community action for change.

The development aspirations of Māori, the desire to improve the outcomes of whānau, and the tikanga around manaakitanga, whānaungatanga and rangatiratanga mean that iwi and other Māori groups are obvious candidates for further devolution of the commissioning of social services.

13.7 Existing iwi involvement in commissioning social services

There are a number of steps involved in commissioning social services. Māori groups may prefer to be involved in some but not others. By looking at some existing examples we can see what has currently been possible, and gauge what further opportunities the devolution recommendations in this report might hold.

Ngai Tūhoe – mana motuhake

Ngai Tūhoe have a strong interest in taking full responsibility for decision making about social services. This arises from their desire for mana motuhake (explained in Box 13.1)

Box 13.1 **How Ngai Tūhoe define mana motuhake**

> Mana Motuhake is the acceptance of obligations, duty and responsibility to the full in order to be deserving of all the rights, entitlements and privileges that ensue. Mana Motuhake is a 'collective action' grounded mechanism, not individual, therefore it comes in to view with hapū and their whānau behaviour, attitude and actions.
>
> Mana Motuhake is the politic of being Tūhoe. The integrity of Tūhoetanga relies upon the dedication of Tūhoe people to be self-governing, paying and earning their own way, not beholden to others, not enslaved by another ideology. The raising of whānau, hapū stature strengthens the iwi. The tribal authority will be the conduit by which the ideology and principles are restored to whānau and hapū.
>
> Mana Motuhake is a political stance that supports the retention and restoration of power and control by Tūhoe over all matters pertaining to Tūhoe. This confirms the validity of hapū political systems and rights to exercise leadership authority pertinent to decision-making that is based on Tūhoetanga. The freedom to determine how Tūhoe will live, how they will raise their children and mokopuna, how they will keep traditions alive, how they will celebrate who they are, how they will preserve and maintain their language and cultural values and ultimately how they will prosper and continue.

Source: Tūhoe Establishment Trust, 2011, p. 12.

There are several critical components to the social service provisions that the Crown has developed with Ngai Tūhoe through the Treaty settlement process.

- *The relationship statement Nā korero Ranatira ā Tūhoe me Ta Karauna* (2 July 2011). It was significant because it included an acknowledgement by the Crown of the mana motuhake of Tūhoe, and acknowledgement by Tūhoe of the mana of the Crown (Sapere, forthcoming, p. 11). It led to the development by the Crown and Tūhoe of a 40-year Service Management Plan (SMP).
- *The Service Management Plan* (November 2012). The SMP is structured as a series of bilateral agreements between the participating agencies and Tūhoe (Sapere, forthcoming, p. 12). It is overseen by a Social Service Taskforce, comprised of officials from the agencies party to the agreement (MBIE, MinEdu, and MSD).

In Tūhoe's view "the SMP is a Crown document and a Crown responsibility and while they would attend the Taskforce meetings they were not part of the Taskforce" (Sapere, forthcoming, p. 12). The Taskforce has not met since November 2013 (Sapere, forthcoming, p. 11).

MSD continues to work with Tūhoe to give effect to its mana motuhake in the delivery of social services. There is some way to go to determine the best model to achieve mana motuhake, but the aspiration to be self-governing is a strong one.

Te Hiku grouping – the social development accord

The Te Hiku Social Accord is described in Chapter 3. Box 13.2 briefly outlines how the Te Hiku Development Trust describes the Accord.

Box 13.2 **Te Hiku Social Development and Wellbeing Accord**

The Te Hiku Development Trust explains the Accord as being:

> [A]bout empowering whanau living in Te Hiku o Te Ika [the part of the Far North District that is north of the Hokianga] and helping them to improve the quality of their lives. The Accord was Signed by the Prime Minister and his Ministers in Waitangi 5th February in 2013.
>
> The Accord is about Crown agencies working collaboratively with Te Hiku iwi on the co-design of solutions for our whānau and community in Te Hiku. Te Hiku has been and will continue to meet regularly with Government Departments to ensure they are meeting their obligations to remove disparities and create socio-economic equity for our iwi, hapū and whānau.
>
> The approach being pursued is a multi-agency one, which requiring a significant paradigm shift in the way departments have historically operated and serviced the needs of the Te Hiku community.
>
> The work will be founded on sound evidence and data, with jointly agreed measures between the Crown and Iwi. The Accord will seek best out [sic] practice, help to achieve cost effectiveness and real results in terms of outcomes for the people, not just for Māori but for the whole Te Hiku community.

Source: Te Hiku Iwi Development Trust, n.d.

The Commission met with representatives of the Te Hiku Iwi Development Trust. Unlike Tūhoe, the Trust do not wish to engage in service delivery or purchase decisions. Instead, they see their role as being at the governance level only, influencing the direction of social policy within their collective rohe. This could be described as participating in commissioning to give effect to the manaakitanga and rangatiratanga duties of mana whenua for the social wellbeing of their people and others residing in their rohe.

Ngāti Tūwharetoa's Agreement in Principle

Ngāti Tūwharetoa is different again. Rather than seeking to achieve formal inclusion in commissioning through the Treaty settlement process, they have instead used the process to get an undertaking from the

Crown to provide them with the information necessary to directly negotiate projects with the relevant Crown Agencies. Box 13.3 outlines the relevant section of their Agreement in Principle.

Box 13.3 **Cultural and social wellbeing section of the Ngāti Tūwharetoa Agreement in Principle**

6.56 The Crown acknowledges that Ngāti Tūwharetoa aspire to work with Crown agencies on projects to enhance the education, health and living standards of Ngāti Tūwharetoa people, and to improve their cultural and spiritual wellbeing. The 2013 Census shows that Ngāti Tūwharetoa people have suffered significant social and economic deprivation, which is illustrated by the following statistics:

6.56.1 Ngāti Tūwharetoa people had a median income of $21 900 (compared to a national average of $28 500, and a national Māori average of $23 700);

6.56.2 32.2% of Ngāti Tūwharetoa had received income support in the 12 months prior to the census; and

6.56.3 55.3% of Ngāti Tūwharetoa lived in rental accommodation (17.9% of which was provided by Housing New Zealand).

6.57 Beyond the settlement, Ngāti Tūwharetoa aspire to support Māori landowners in their area of interest to develop their lands and resources for the benefit of their people. Ngāti Tūwharetoa consider that there are significant opportunities for sustainable development of their lands, forests, farms, fisheries and other natural resources. This would make a significant contribution to whānau and hapū of Ngāti Tūwharetoa, and also to the district, regional and national economies.

6.58 The Crown will, outside of this settlement, work with Ngāti Tūwharetoa to develop a socio-economic data profile for Ngāti Tūwharetoa members prior to the deed of settlement. Ngāti Tūwharetoa will then approach Crown agencies in relation to any issues identified by the profile.

Source: Office of Treaty Settlements, 2015.

Although not a formal co-governance arrangement for involvement in commissioning social services, this is still an example of an iwi seeking to exercise rangatiratanga in social services.

Te Waipounamu iwi – Te Pūtahitanga

The nine iwi who hold mana whenua in Te Waipounamu (the South Island) have formed a limited partnership, creating Te Pūtahitanga o Te Waipounamu. Te Pūtahitanga successfully tendered to be the Whānau Ora Commissioning Agency for Te Waipounamu. The iwi partners form a shareholder council known as Te Taumata, which has appointed an independent governance board to direct Te Pūtahitanga.

This structure involves iwi as owners of the organisation that will be commissioning services for the whānau, and therefore gives them a stronger ability to hold that organisation to account than if it were a government agency. It gives the iwi of Te Waipounamu greater influence over part of the government apparatus, while maintaining their distinctiveness and without requiring a large commitment of their capability.

This is a particular example where iwi have elected to become involved in commissioning social services within the apparatus of a government initiative. Te Puni Kōkiri's commissioning function has been contracted out to a joint venture, rather than being devolved to the iwi directly.

Te Pou Matakana

Te Pou Matakana, was established in 2014 by the National Urban Māori Authority (NUMA), which is its principal shareholder and appoints the board of independent directors. It won the tender to become the Whānau Ora Commissioning Agency for Te Ika o Māui (the North Island).

In contrast to Te Pūtahitanga, Te Pou Matakana has its roots in urban Māori which NUMA represents. NUMA is a national umbrella organisation with seven affiliate Urban Māori Authorities (UMAs), which provide approximately 300 services to whānau in five main centres (Whangarei, Auckland, Hamilton,

Wellington and Christchurch). The services cover education, health, housing, justice, and social-work related services.[90] The UMAs were set up in response to the migration of Māori to cities over two generations during the 20th century, recognising that "by the mid-1980s nearly 80% of Māori lived in cities" (NUMA, 2009).

Te Pou Matakana has as its kaupapa "supporting successful families" through a three-pronged approach:

- applying the collective impact model (see Chapter 3);
- providing direct support to whānau through its "Whānau Direct" programme; and
- co-investment with partner organisations (Te Pou Matakana, 2014).

Through its collective impact approach, it aims to design and deliver initiatives and new services that are best targeted to whānau who need them. One of NUMA's affiliates, Te Whānau O Waipareira Trust provides backbone or back-office support and is trialling an ICT-based whānau assessment tool to help monitor and report progress against Whānau Ora outcomes. Whānau Direct is an initiative to develop whānau capability and capacity. Te Pou Matakana is conducting a pilot with 22 Whānau Ora provider–collectives throughout the North Island for this purpose.

Of the three Whānau Ora Commissioning Agencies, Te Pou Matakana serves the largest population to (see Appendix C). Structured as it is, it navigates between the competing claims for representation discussed in section 13.4, both as a Commissioning Agency, and then choosing between the service providers it commissions. In the latter case, it makes choices using as its criteria:

- experience;
- relationships with the local community;
- geographic reach; and
- track record in delivery of integrated social services.

This mirrors the discussion in section 13.5 – that following principles of good process will go a long way towards navigating the different aspirations and areas of interest of different groups.

Observations from the examples

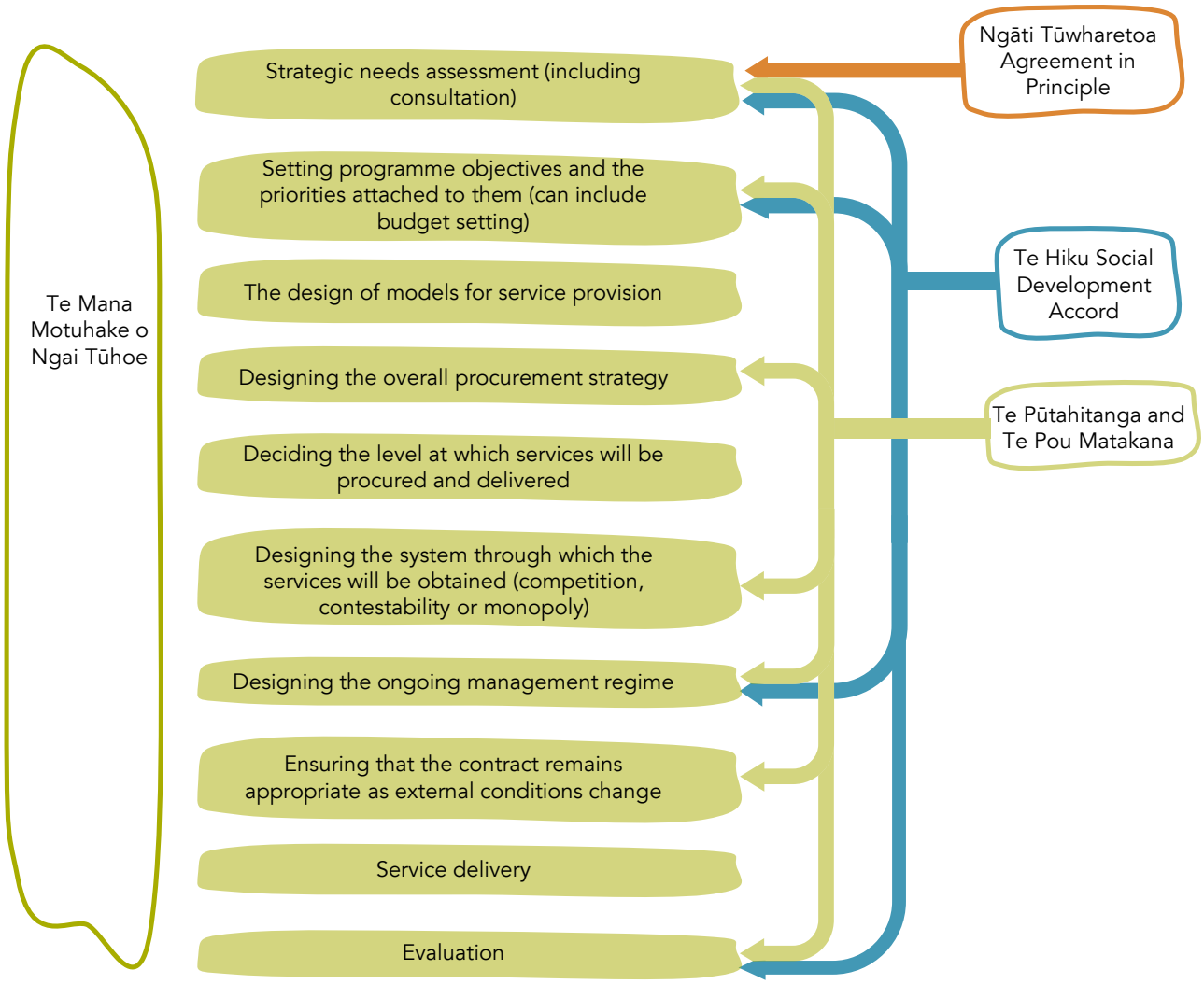
This section makes observations on both the nature of involvement in commissioning that the example groups have sought, and on the process used to achieve that involvement.

Observations on the nature of involvement

There are some examples where iwi can and are making some choices on how they would like to be involved in commissioning social services. Figure 13.2 shows graphically where the examples have chosen to be involved with commissioning.

[90] The seven UMAs are: Otangarei Trust, Te Whanau O Waipareira Trust, Manukau Urban Māori Authority, Te Runanga O Kirikiriroa, Te Kohao Health Trust, Te Roopu Awhina ki Porirua Trust and Te Runanga O Nga Maata Waka.

Figure 13.2 Choices made by the five example iwi groups on how they wish to engage with commissioning



Source: Sturgess, 2012; Productivity Commission.

These choices may have been made within constraints that are not readily apparent outside the negotiations themselves. That said, the tendency in these examples is towards involvement in commissioning while maintaining some distance from responsibilities historically held by the Crown.

This suggests some caution in advocating devolved commissioning models as "the solution" to delivering social services for Māori. Although there is some interest, in practice it may take some time for these models to be fully realised. It is appropriate that Māori/iwi determine the pace and extent of the process and their involvement in it.

Observations on the process for achieving involvement

The process used to decide which Māori organisations to engage with, and over what, can potentially have undue influence over the outcome of who is selected. Good governance (or kawanatanga), means it is important that the process of determining who to partner with in social services is open. It needs to allow for the various claims to representation and influence from Māori organisations to be heard and considered fairly. Anything less than an open process is likely to lead to a sub-optimal involvement of particular communities in the decisions that affect them.

The process most commonly used in the examples has been the Treaty settlement process. This raises questions such as:

- Does the Treaty settlement process, which is aimed at achieving full and final settlements, include sufficient flexibility to cope with emerging needs and aspirations in the future?

- Does the primacy of the Treaty settlement process potentially exclude from consideration organisations – such as urban authorities and non-aligned tangata whenua groups – who could otherwise usefully be involved further in commissioning?

The answer to these questions is probably that the Treaty settlement process is too inflexible and too narrow to realise the potential for devolving commissioning to Māori effectively. A better process needs to be based on:

- the government providing a standing opportunity to Māori groups to propose how they might like to be involved in commissioning;
- the nature of the proposed process needs to come from Māori, rather than be a model that Māori groups are co-opted into, or have imposed on them; and
- the constraints that government places on what is possible need to be reasonable.

Box 13.1 outlines the relationship of these ideas to Treaty principles.

Box 13.4 **The Treaty context of Crown-Māori negotiations on social services**

- Some Māori organisations exercise rangatiratanga for their communities. They may wish to further exercise this in social services.
- The Crown has a duty to actively protect Māori interests (including rangatiratanga), so the opportunity for greater involvement needs to be an active rather than passive one.
- Neither kawanatanga nor rangatiratanga are absolutes in the context of partnership – both are constrained by the reasonable needs of the other. This means that not all expressions of rangatiratanga may be possible, and, where the Crown does constrain rangatiratanga, those constraints need to be reasonable.

F13.2 The Treaty settlement process is not well suited to exploring opportunities for Māori groups to have greater involvement in social service commissioning, especially as New Zealand moves into a post-settlement era.

R13.1 The Government should create a standing opportunity for Māori groups to initiate negotiations to increase participation in commissioning social services, outside the Treaty settlement process.

Section 13.9 discusses some of the design issues in relation to the devolution of commissioning to Māori organisations.

13.8 The potential for data analytics to assist in achieving Māori aspirations

The New Zealand Data Futures Forum has already undertaken consultation and analysis on the potential for data to empower Māori (Box 13.5). This inquiry therefore has not replicated that work.

Box 13.5 **New Zealand Data Futures Forum discussion of using data to empower Māori**

During our discussions with Māori, we heard many of the same themes as we heard elsewhere. However, we heard strongly that Māori want to be involved in the use of the data about them.

- Māori use and control of Māori data are important to support Māori goals. This is about Māori business. It's also about whanau, iwi, urban Māori, whakapapa and the ability to exercise tikanga, such as manaakitanga and kaitiakitanga.
- Many Māori do not perceive themselves as having benefited much from the collection and use of data.
  - They perceive a real and immediate risk of greater data availability being used for ethnic profiling, to their detriment.
  - Despite widespread demands on them for data in the past, the data seems to be rarely used in ways that might benefit them.
  - There is a vicious circle in which negative statistics reinforce poor outcomes and negative perceptions, which in turn yield more negative statistics.
  - Māori are often denied access to data they have provided and data about them, or it is collected or used in ways that do not meet their needs.
  - Collection, storage and use of data often occur in ways that do not respect Māori tikanga.

Government's data about Māori should not be hidden away in various state sector silos, especially as there is enormous potential to use the data to identify and respond to opportunities and support Māori development. Examples of projects that would deliver value for Māori communities include understanding preventable mortality in the Auckland region, building on the Sensing Cities work and sustainable land-use data for development of Māori enterprise. There are undoubtedly many other examples. We recommend a much stronger effort to work with Māori to ensure data for and about Māori is used in collaborative projects that create value for Māori communities.

Source: NZDFF, n.d., pp. 42–43.

In the social services context, the objectives that government agencies appear to have been most interested in are the potential to use data:

- for better "targeting" or prioritisation of types of client;
- to better match the most effective interventions to the clients who will respond best to them; and
- to better measure the benefits of social services and to make stronger cases for resourcing.

Māori social service providers may also share this enthusiasm. Data, such as student educational data by iwi, can be used to advocate for improvement programmes where necessary. Data can serve as a "critical friend", so that Māori service providers can improve their own performance without reference to formal contract monitoring. The Whānau Ora Commissioning Agencies place considerable emphasis on building the evidence base of their work. One Agency in particular was developing an information system that could form part of its backbone infrastructure for interacting with the providers it contracts with. The same agency was working on a social-cost calculator.

On the other hand, some expected benefits of data analytics may seem less important where iwi, Māori and kaumatua may know similar things but from different knowledge bases:

> Information technology is essential as a tool for development. Data in its own right is unhelpful but to be effective must only ever be one tool of analyses and not an end point or rationale. (Te Rūnaka o Ōtākou, sub. 110, p. 9).

The promise of data analytics for government is that it gives the centre the potential to know things that it has not been able to know before, given its relative distance from clients and service delivery. This will be

less relevant where whakapapa and whānaungatanga mean that particular client needs and amenability to different kinds of intervention are broadly known within iwi and Māori communities.

The Māori Statistics Advisory Committee has identified broadly where and how data can be used within the processes of tikanga:

> For Māori, the approach to this kaupapa should be enshrined in processes of tikanga. Eg, manaakitanga is based upon data showing how we assist our own and carry out this deep-seated obligation to all peoples; kaitiakitanga needs data to show how we add value to care for the environment and control use of resources so they are fully available for future generations – which means using past and future generations data to exercise that duty.
>
> This means that the kaupapa starts with the relationship of the personal to the collective and vice-versa: descent from whakapapa is where this relationship starts and it affects everything in Te Ao Māori stemming out for instance to wahi tapu. (MSAC, n.d., p. 1)

This also raises a related point – much of our statistical information is on an individual basis but, in the context of Te Ao Māori and empowering Māori communities, being able to understand the situation within whānau and hapū is important. Some of the potential for data to aid Māori development is in understanding the dynamics and strengths within hapū and whānau. This can help both identifying potential underlying causes of issues and also hapū and whānau resources that can be drawn upon to address those issues.

Data analytics may hold some particular promise for Māori:

- because government is more responsive to data, it becomes a powerful language for bargaining; and
- future liability, though an unpalatable language for some, opens up new possibilities for negotiating funding transfers.

There appears to have been no shortage of ideas for improving outcomes amongst social services to Māori. Getting traction on these ideas has proven more difficult, especially where the benefits of, say, a housing initiative, are likely to show up for government as a reduction in expenditure in a different Vote such as, say, health or education. As well, the politics of ethnicity in New Zealand means that Māori-led or visibly Māori "branded" initiatives will often receive greater than usual public scrutiny. Combined with a culture of risk aversion in government agencies (Chapter 4), this can make it particularly hard for Māori to get government support for new initiatives in social services.

Measurements of reduction in future liability create a powerful argument for the benefits of programmes that accrue to all taxpayers – regardless of who is leading the initiative. They may also be a way to avoid criticism of the merits of taking a Māori approach. Measurements of future liability have the potential to cross funding silos. As such, Māori might find it more possible to negotiate for support from government where previously individual agencies would refuse.

These benefits are best realised if Māori have access to these kinds of data analytics, as envisaged in Chapter 8.

13.9 Issues for designing further devolution to Māori

To which kinds of communities might commissioning be devolved?

There are two broad choices for the kind of communities to which commissioning might be devolved or delegated:

- devolve to an existing self-identified Māori community (the rangatiratanga argument); or
- delegate/contract on the basis of an administrative distinction (potentially to avoid capture by any particular community).

Whānau Ora appears to have gone down the "administrative distinction" path, by using North Island Māori and South Island Māori as the relevant communities to devolve to. As discussed above, Te Waipounamu iwi

have found a way to exercise some rangatiratanga through that process. There may also be a case for some devolution to existing self-identified Māori communities, although care needs to be taken not to split up the available funding too much.

Funding and devolution

Previous attempts to empower communities, such as Whānau Ora, have struggled to achieve devolution of service delivery funding. The practicalities of devolving funding receive some discussion in Chapter 5. This section considers the specific challenge of devolving funding on the basis of population group or community of interest. This challenge is relevant to some of the other institutional architectures and service models discussed elsewhere in the report. However, given that moving funding to support policies (such as in Whānau Ora) to involve Māori groups much more in decision making has proven so problematic in the past, it warrants specific discussion here.

The Commission has observed three specific challenges that need resolving before funding can be devolved on the basis of population group or community of interest:

- difficulties in pricing the entitlement or proportion of funding being spent on any particular group (and therefore determining the amount to be devolved);
- potential mis-matched allocation between funding and clients (eg, where a provider is funded to support a client, but that client chooses to access services from other, unfunded, providers); and
- rights-based challenges to moving funding for an individual's entitlement under one system to another system (if it restricts the client's choice of provider).[91]

Q13.1 Has the Commission adequately understood the challenges of devolving funding on the basis of a population group or community of interest?

Devolving funding is inherently difficult. To start the conversation on how this might best occur, the Commission discusses four broad options below. This is in no way intended to be a "roadmap" for achieving greater devolution of funding, but instead is a "starter for ten" for submitters to consider.

Basic funding options

There are four basic options for funding devolution of social services to Māori groups:

- **An enrolment approach:** In an enrolment approach, clients choose their commissioning organisation and/or provider, enrol with them, and bring a funding entitlement with them. Where funding is devolved in this way, the funding would follow the client from the existing system of service provision.[92]
- **Top slicing general funding:** Top slicing means taking an arbitrarily set proportion of funding from existing programmes, and transferring it to the devolved organisation.
- **A shared-savings approach:** A shared-savings approach uses data to establish forward welfare or social service expenditure liability for a population. It then funds a commissioning organisation or provider either in advance on the basis of expected liability reductions resulting from their activities, or after the reductions have been demonstrated.
- **Devolving any tagged funding:** Some funding is specifically tagged for Māori providers or programmes. This funding can look like an obvious candidate for devolution.

The advantages and disadvantages of different approaches are discussed below.

[91] "Rights-based" in this context refers to individual common law and statutory rights, including entitlements to benefits.

[92] Some social insurance arrangements also require enrolment (see Chapter 9).

Enrolment approach

An enrolment approach is the best option for addressing the rights-based challenges. This is because it is based on clients choosing where there funding will be allocated, rather than shifted on the basis of, say, their statistical risk profile or their iwi affiliation. However, enrolment approaches face several other problems:

- **Pricing challenges**: This approach faces the greatest pricing challenges, as it requires the ability to clearly identify the client entitlement that is being shifted to the devolved commissioning organisation. Many social services systems are not currently funded on an individual "entitlement" basis, making establishing the relevant price difficult.
- **Potential restriction of client choices**: There can also be issues about how much movement between commissioning organisations is allowed (discussed in Chapter 9), and how individual choice of the organisation that eventually provides the service is preserved. Clients may have enrolled with one organisation, but prefer a specific service or provider that is not funded by the organisation with which they are enrolled. This restrict client choice without a funding transfer mechanism, which could be administratively expensive.

Top slicing general funding

Top-slicing avoids the challenges of identifying the relevant existing spend that needs shifting, by arbitrarily choosing an amount to move. The main objection to top-slicing is that it is indiscriminate – it curtails both good and poor existing programmes. Some existing providers may be unviable with reduced funding. This can have undesirable knock-on effects, particularly if other providers rely on being able to refer clients to that provider.

Social Sector Trials have partly used a similar approach, by transferring the control of relevant contracts to Trial leads. The final evaluation of the trials noted some challenges with this approach (Box 13.6).

Box 13.6 **Integration of funding activities**

Integration of in-scope government contracts into a single appropriation is a key feature of the Trials design, with the intention of giving Trial leads flexibility in using the funding to best meet local needs. However stakeholders report that integrating funding had proven to be a significant challenge for the Trials and it has not been fully achieved. Reasons given for this were:

- a number of government contracts were not included because they were not strictly in scope
- the limited leverage available to government agencies that have a devolved operating model (eg Ministry of Health, Ministry of Education) to influence the way funding is used in particular communities
- difficulty in separating out funding intended for small Trials sites when contracts are funded for service provision across wider regions.

Source: Centre for Social Research and Evaluation, 2013.

Shared-savings approach

A shared savings approach uses data to establish forwards welfare or social service expenditure liability for a population. It then funds a commissioning organisation or provider either in advance on the basis of expected liability reductions resulting from their activities, or after the reductions have been demonstrated. Although potentially fiscally neutral, this model faces several drawbacks:

- It suffers from the same attribution issues that arise whenever changes in outcomes are being measured.
- Depending on how the outcome is specified, there may be problems with gaming and quality shading (see Chapters 5 and 6).
- If the devolved commissioning organisation is reliant on this approach for funding then it may have a bias to short term options (where savings are made soon and can be redirected to fund it quickly).

Shifting tagged funding

Funding expressly tagged for Māori is often capability funding for Māori providers. For example, Whanau Ora capability funding was introduced to encourage providers to collectivise, and help cover their costs of doing so.

Some tagged funding is programme specific (eg, E tu Whānau). Shifting such funding would mean ending or re-purposing those programmes. This may be undesirable, or politically hard to achieve.

Concluding thoughts on funding

The shared-savings approach has the potential to redirect money in the least disruptive way. However, especially if it is going to be paid in arrears, it would require seed funding. Notably, Social Sector Trials have required both seed funding and the ability to redirect funding in a manner similar to top-slicing (Box 13.7).

Box 13.7 **Social Sector Trials funding**

Social Sector Trials (SSTs) have used a "top-slicing" mechanism to integrate their budget, which allows decision-making at the local level but with the approval of the Director SST who sits at the centre:

> Access to integrated funding (through the transfer of relevant contracts previously managed by individual agencies to SST management and an integrated appropriation within Vote: Social Development) ensures Trial leads can then use this funding to continue key programmes, reconfigure these programmes, or end these programmes and re-contract for something else, depending on what best fits local needs. The integration of the funding within the SST appropriation ring-fences the spend for SST use, and scope statements ensure it's able to be used (within appropriate legal limits) for SST-directed initiatives without the limits individual Vote appropriations require (including restricted age range targets, outputs, or outcome areas). (Social Sector Trials, sub 126, p.8).

They also have a defined seed funding allocation within the SST appropriation:

> The opportunity to apply innovative approaches through the use of seed funding provides greater flexibility and collaboration in a timely way that is more responsive to community needs and very different to typical social service provision. It is integrated funding in a SST ring-fenced appropriation, meaning it isn't bound by any other agencies NDOE rules. It is available for allocation within legal limits, with the Director: SSTs agreement to the spend. It is able to be quickly contracted and is therefore responsive to local needs. It is allocated for communities in advance of the financial year, meaning each SST knows its available funding source in advance, and then has the ability to secure other funding as needed. (Social Sector Trials, sub 126, p. 8).

Whānau Ora Commissioning Agencies were funded through tagged funding initially (Whānau Ora funds from Te Puni Kōkiri). Using the incentive-payment approach – currently being trialled by Whānau Ora Commissioning Agencies (Appendix C) – may provide good evidence to determine whether a shared-savings approach could be used to expand funding to devolved commissioning agencies.

Part Three: Making it happen

Part Three describes a way forward to implement the significant changes that the Commission is recommending. The proposed reforms to roles and responsibilities, commissioning, the use of client-directed and other devolved approaches, an expanded investment approach, and improved contracting are big. If implemented they will disrupt current arrangements and roles. It will therefore be necessary to proceed with care, with excellent leadership, at the right pace, the right degree of consultation, and the right sequencing. It will be important to learn about what works along the way and make appropriate adjustments. Chapter 14 proposes how the Government could set about implementing the reforms in a way that has these desirable features.

Chapter 15 supports the case for change by indicating the types and orders of magnitude of the economic and social benefits achievable with system reform.

14 Implementation

Key points

- Achieving the step up in performance of the social services system by following the Commission's recommendations will require big shifts in roles and behaviour by ministers, delivery agencies, providers and clients. The question is how best to make this happen.
- Implementing the Commission's recommendations will require ministerial responsibility to set strategic direction and adjust it as needed in the light of experience.
- The Government should draw on advice and support both inside and outside the public service to enable it to develop and implement a reform strategy for social services.
- To focus the effort of its agencies and support ministers, the Government should establish an "Office of Social Services", within the government central agencies, to:
  - provide a strong, influential centre of thought leadership with a committed, whole-of-system orientation;
  - help ministers to develop the overall reform strategy; and guide its implementation;
  - develop whole-of-system data and analysis;
  - undertake research on system-wide issues and provide advice to the Board of Chief Executives and through that board, to the relevant ministers;
  - undertake evaluations of the performance of the social services system;
  - provide advice and design guidance for agencies engaged in commissioning; and
  - promote continuous improvement across the system.
- The Office of Social Services would need clear terms of reference that steer it towards favouring a strong customer focus, a wide-access and comprehensive data infrastructure and whole-of-system thinking.
- Measures that would help sustain reform and build in incentives for continuous improvement include:
  - a process for independent review of the implementation of the reform programme;
  - establishing a rolling review of social services programmes against specified criteria; and
  - seeking beneficial opportunities to undertake international benchmarking of social services, including their cost effectiveness, such as through participating in the Australian *Report on Government Services.*

This chapter discusses how to achieve effective implementation of the report's recommendations to improve the delivery of social services. The report has been written at a time when the Government is pushing ahead on several fronts to improve the effectiveness of social services. The recent announcement of a modernising review of Child, Youth and Family and the Minister of Finance's recent speech describing the application of social-investment principles in this year's budget are two examples[93]. The Commission's recommendations go further than the current agenda, yet are congruent with this direction of travel. If

[93] See Minister for Social Development (2015b) and Minister of Finance (2015)

implemented along with other initiatives that the Government is considering, the proposals would make up a significant long-term reform agenda involving considerable change that must be led by ministers and senior public servants.

However, the approach to implementation needs to manage a challenging dilemma. While the centre of government and portfolio departments need to play key roles in creating the framework, capabilities and environment for change, many of the Commission's proposals would alter, sometimes significantly, their role and influence.

For example, the report expects better availability and use of data to enable the current, predominantly top-down approach to commissioning social services to shift towards a more decentralised approach – with service providers having more freedom, but more responsibility for improving outcomes. It also envisages clients increasingly being able to choose providers (facilitated by client-directed service models). The Commission anticipates customer choice would empower clients, reduce service fragmentation and increase pressure on service providers to improve their performance,

The Government would still set system goals and standards; develop the data infrastructure; monitor performance and overall progress against outcomes; oversee evaluation; and promote changes suggested by evaluations. But responsibility for commissioning would be increasingly devolved. The challenge in bringing about such a shift is to develop a change-management strategy within government, involving devolution of some decision-making responsibility that presently sitting with government agencies.

Significant forces work against change. Earlier chapters have identified that:

- various approaches to funding and steering the system have been tried, but agreement on roles and business processes has not been reached;
- there is no general agreement on the various roles in the social services system and who should do what work;
- little attention has been paid to the informal solutions used by most families and communities to address issues without the support of government services – and whether there is a gain to be made in learning more about how those informal channels can be supported and strengthened;
- much of the change effort has focused on the relationship and roles of government agencies and providers – there is little information on which to base a more customer-centred approach;
- the top-down control culture of government agencies and the mission-driven culture of the provider sector have struggled to build a common platform for action – more often than not, change has resulted in compromise to preserve the "relationship" or the mission; and
- the skills and capabilities to carry out a range of new tasks are only partly present.

Reform will require driving changes that may sometimes be uncomfortable for the ministers and their departments that would normally implement many of the report's recommendations.

> The system will need to change some of its DNA. Old customs, competencies, power structures, assumptions, and jobs will need to change. This is why these kind of changes generally do not happen spontaneously from within the status quo. Everybody in positions of power within the status quo has a vested interest in their competency in managing the status quo. Why would I let go of the data? Give up my monopoly? Learn new tricks? (Mansell, 2015, p. 21)

Further, the report has presented evidence that current decision-making responsibilities and incentives can lead to decisions with a short-term focus, which are not based on genuine experimentation, and which are designed to minimise cost rather than meet the needs of clients for an integrated package of services. There is also a tendency to maintain programmes beyond their use-by date.

This chapter argues that achieving reform in the face of such headwinds is more likely if:

- the Commission's proposals are set within a broad, long-term strategy that takes a whole-of-system approach, and are implemented in a deliberate way (section 14.1);
- responsibility and authority for implementation are clearly allocated, with the ministers responsible for strategic direction receiving effective support from an influential new Office of Social Services (section 14.2); and
- an external advisory board is set up to independently review reform progress, supported by measures that would help to sustain reform and build in incentives for continuous improvement (section 14.3).

14.1 A long-term strategy for change

Long-term focus

An early task for the Government is to develop a strategy for implementing those recommendations that it accepts. A strategy provides coherence and direction and establishes a framework for purposive action.

The strategy could be developed quickly, but needs a long-term focus: the short-term focus in the past may have hindered sustainable improvement:

> Government, however, has to take responsibility for starting and then failing to follow through on so many strategies (usually because of a change of minister and/or administration). Whatever the reason, the lack of a long term sustainable strategy is inimical to partnerships and working with communities because it meant all too often the government side had no lasting goals, no operating principles and no security that it would not all change. (John Angus, sub. 109, p.11)

The strategy's time horizon needs to be long enough to enable the proposed initiatives to be implemented; to provide confidence that the strategy is working as intended; and to enable the role of the centre to shift from "command and control" to an ongoing change-management and stewardship role.

Strategic themes

Categorising the Commission's recommendations into seven themes provides a framework that could become the basis for a strategy.

Theme 1: Improve system stewardship

There is currently little conscious oversight of the social services system as a whole, encompassed by the idea of *system stewardship*. Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government is the only participant that can take on responsibility for system stewardship and for making considered decisions that shape the system (Chapter 5).

Theme 2: Improve capability and tool development

Capability gaps cause system failure. For example, Chapter 12 described poor procurement practice, and Chapter 6 described how this sits within a wider failure in commissioning. Transforming the delivery of government services will require new capabilities within government in areas such as commissioning and managing contracts. Those involved in commissioning, for example, will need to use multiple frames of reference to oversee and deliver on data development; to be able to build an investment approach; to understand pricing methodologies; to be able to develop outcomes measures; and to have skills in stakeholder consultation, culture change, and public communications (Chapter 6). Providers will also need new and enhanced skills. For example, some providers will need to learn assessment skills, to enable them to help some less capable clients to make effective choices in client-directed service delivery models (Chapter 11). Initiatives implemented before the capabilities exist to deliver them are likely to fail.

Improving capabilities involves:

- identifying required competencies;

- developing a plan for how these competencies will be sourced from within the system, or grown through training and development, followed up by systems that reinforce new behaviours and allow them to adapt further; and
- ensuring that there is an accessible "bank" of knowledge so that capability can continue to develop.

Several recommendations involve developing new tools and capabilities. Such recommendations are likely to feature early in the reform process, because they are a pre-requisite for implementing other changes. Examples are better commissioning skills (recommendation 6.6), supported by well-resourced demonstration projects designed to build awareness of, and capability in, commissioning (recommendation 6.7; skills in data technologies and analytics (Chapter 8); and the proposal that agencies engaging non-government providers of social services should develop a risk-management framework that enables them to identify and allocate risks (recommendation 12.2).

Theme 3: Make better use of data

Developments in data technology and analytics have transformed many service industries, and can reduce the barriers to developing the more devolved, yet more integrated, approaches to delivering social services that are supported by this report. The same developments could support new business models in social services that will substantially improve effectiveness. This report supports:

- more use of data to measure and monitor programme outcomes;
- the development of a comprehensive, wide-access, client-centred data infrastructure accessible to providers, service users and researchers;
- government social services agencies working to coordinate operational data-sharing;
- partnerships with non-government organisations and academia, to use data sharing and analysis to create new solutions to difficult-to-solve social problems;
- government assistance to providers to access and use operational data to improve service integration.

Delivering this agenda will be challenging. There will be technical issues to resolve; privacy and security considerations to work through; new organisational structures to be developed; new skills and capabilities required; and new analytical models to be developed.

Theme 4: Shaping incentives through choice and transparency

Placing the power of choice in the hands of the customers of social services would strengthen the incentives to drive providers to continuously improve their services. Aided by a new wide-access and comprehensive data infrastructure, providers would have opportunities and incentives to work directly with clients and government agencies to come up with innovative, integrated and effective service packages. These are powerful incentives.

This report also contains recommendations designed to strengthen specific incentives for good practice by government agencies and by non-government providers. For example, recommendation 12.2 is that all agencies that contract with non-government providers should report yearly on compliance with tendering timelines. Recommendation 12.5 would require agencies to adopt a risk-based approach to monitoring contracts and require them to publish their assessments of monitoring arrangements, including an analysis of the costs and benefits.

The challenge is to develop incentives that target the activity to be encouraged or discouraged; have sufficient force, but are not excessively costly to apply; and that sustain and indeed expand the momentum for movement towards new models of delivering social services. Box 14.1 provides an example from the health sector, which also shows how better data enables a more devolved approach to service delivery and the incentive framework that drives this approach. These incentives not only motivate better performance, they would also create a group of supporters for the new approach who are motivated to foster and develop it by the prospect of a more financially and professionally rewarding working environment.

Box 14.1 **Integrated incentive and performance framework for the health system**

This framework, which has been proposed by the Expert Advisory Group, seeks a balance between the local responsibility and discretion needed for innovation and quality improvement, and accountability for performance in meeting sector-wide national health goals. The framework relies upon system-level performance measures that are set nationally and provide the basis for assessing local performance, against goals that are set locally. The national goals are set at a high level and districts are required to choose measures that contribute to the national goals in ways relevant to local circumstances. A dictionary of contributory measures is being developed so that common definitions are used for service delivery and accountability purposes. The framework anticipates an environment of high trust, in which local relationships set the agenda for quality improvement, within the overarching goals set by nationally consistent system measures.

These measures would be reported for the population as a whole, but must also have the capacity to be reported for disaggregated groups. This will require the development of new sources of data. System measures would be assessed yearly so as to categorise providers according to their performance. The system provides for four levels of achievement: breakthrough, excellence, improvement and entry/pre-requisite. Incentives for good performance vary between groups, but have professional and financial components, including through providing pathways for trusted referrers to have rapid access to key services, enabling trusted and experienced professionals to have their expertise acknowledged and rewarded professionally; direct payments; greater freedom to manage services and capability; and capacity support. Groups that do not meet minimum standards would, after an opportunity to improve, be subject to increased monitoring and intervention or, ultimately, face the withdrawal of contracts.

Source: Expert Advisory Group, 2014.

Theme 5: Reshaping roles and responsibilities

The Government should develop new institutional arrangements, which provide the framework and incentives for implementing the strategy. This includes establishing which ministers are responsible for implementation, clarifying their roles and responsibilities, and identifying who will support them. This is discussed below. Setting up the arrangements for more devolved commissioning and client empowerment (Chapters 6 and 11) should also be an early priority. These arrangements need to be supported by mechanisms, described in section 14.3, which would sustain the new models for delivering social services as envisaged by this report.

Theme 6: Embed continuous improvement

Social services have, with some exceptions, lagged behind many other services in adopting innovative productivity-enhancing business models, including those enabled by developments in information and communications technology. Innovation involves introducing new or significantly improved services or business processes, to improve the results from available resources.

Social services are complex and dynamic. Continued experimentation is needed and will require:

- clear goals around improving the return on investment in social services;
- encouragement to find, and the flexibility to try, new ways of doing things; and
- information flows that provide ongoing feedback to decision makers about what is working.

The role of government agencies in a reformed learning system would change from providing and purchasing services, to clearly defining desired outcomes and monitoring progress against them; setting quality standards; regulating providers; and setting overall budgets and high-level funding allocations across services. This will require a shift from the "command and control" approach to a more responsive system that monitors change and can quickly experiment with adaption, select what works and keep moving. The freedom to experiment will need to be matched with a requirement to share new ideas.

Mechanisms are needed to manage a flow of ideas from the margins of the system, so that lessons from successes can spread across the whole system. While the importance of evaluation for continual improvement in the design and delivery of social services is widely acknowledged, in practice evaluation is absent, deficient, or not given enough weight in decision making (Chapter 7).

Government agencies should explore initiatives to encourage innovation in social services. These could include innovation funds, prizes and in-house innovation labs. A shift to more contracts for outcomes could also encourage innovation by giving providers the freedom to experiment with different approaches (recommendation 7.3). Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. Government contracts for social services evaluation should require adherence to those principles (recommendation 7.6).

Theme 7: Encourage consultation

The literature about the leadership of change (Kotter, 1995; Tomson, 2009) asserts that change is facilitated by:

- setting clear goals for the system (at the level of purpose, not targets);
- clear communication of the costs of the status quo, and of the benefits of new goals;
- involving stakeholders in all aspects of design and implementation;
- encouraging buy-in at all stages;
- actively and openly identifying and responding to challenges;
- measuring how things are going – "holding up a mirror" to the system; and
- continuing to do these things over a consistent period of time to build trust and confidence.

Consultation between the users and providers of government services, and between government agencies and non-government providers, is an essential feature of change programmes. Genuine consultation may require involving a range of parties in strategic planning or in the governance of a project. Consultation should be ongoing, but needs to be particularly intensive when new initiatives are being considered. For example, moving from central provision to a client-based approach to delivering a social service would fail without extensive consultation.

There are obvious partners and allies for change in the social services area. Iwi, providers, local interests such as local government, and businesses and private funders have told the inquiry that they see opportunity for change, and have ideas about how that can happen. These allies should be consulted about and enrolled in change. Their roles should be formally recognised in institutional design through advisory groups and standing consultative groups at each stage of design and implementation.

Turning the strategy into action

A strategy sets out the broad direction and sequence of tasks, but requires further refinement to assign responsibilities and drive actions, including:

- confirming that those responsible for tasks have the necessary authority, capability and resources;
- ordering the tasks, depending on factors such as whether they are one-off or need to be supported by complementary measures, or require earlier actions to be taken before they can be effective;
- monitoring progress towards task delivery;
- identifying areas of risk and seeking to resolve issues;
- reporting regularly on actions to address these risks or other barriers to progressing reform; and
- making recommendations about additions and/or deletions to the initial list of reform proposals.

14.2 Responsibility and authority for implementation

Moving from a top-down approach to managing the delivery of social services, to a more networked, devolved and dynamic system, will require changes in roles, skills and culture, and long-term sustained commitment from those leading those changes. Different players will share in decisions about what gets tried and what is supported for longer development. New ways of working together will be needed to ensure wide diffusion and uptake of ideas.

Ministerial responsibility

Implementing the Commission's recommendations will require ministers to be responsible for setting the strategic direction and adjusting it if needed in the light of experience.

Within this broad, long-term strategy, implementation will require that many tasks are carried out across the government sector. Implementation is unlikely to succeed unless ministers ensure arrangements are in place to:

- develop an integrated strategy for improving the social services system and translate this into specific responsibilities and actions;
- allocate tasks to those who are best placed to carry them out;
- ensure that those who are allocated tasks have the capability and incentives to carry them out;
- monitor whether the tasks have been completed; and
- evaluate how well the changes are working, and adjust the reform programme as necessary on the basis of experience.

Which ministers?

The ministers leading implementation need to collectively adopt a whole-of-system perspective, have a deep knowledge of particular social services, and be willing to move away from the status quo.

One option is to allocate responsibility for implementation to the social services portfolio ministers, supported by their departments that will also implement many individual recommendations. However, these departments rightly focus on their particular portfolio roles, rather than looking across the social services system as a whole. Yet it is this broader perspective that will be required. A theme in this report is that the conventional approach to contracting with non-government providers to deliver social services is not always best.

The report supports more focus on client-directed budgets and other ways of empowering users; encouraging approaches to service delivery that devolve decision-making and transcend traditional departmental boundaries; and increasing competition among providers. The report also argues that new information and data technologies can re-configure the role of the centre, so that agencies undertake much less top-down contracting. With many changes requiring a "whole of social services system" perspective, relying on individual service delivery departments to achieve them through acting independently of each other seems unlikely to succeed.

A second option is to allocate responsibility to a central-agency minister, with an economy-wide perspective. However, excluding portfolio ministers and their departments from developing the strategy for reforming social services would weaken their commitment to change and would not draw on the knowledge of those who are actually involved in delivering social services. Effective implementation of a broad system-wide reform programme seems unlikely to be achieved by an approach driven exclusively by a central agency.

A better option is to allocate responsibility to a committee of ministers drawn from relevant service-delivery and central portfolios, to encourage a broader perspective while also taking account of portfolio responsibilities. The Cabinet Social Policy Committee already exists. However, this has more than 20 ministers on it, and is not well suited to driving a big reform programme. Rather, what is needed is a

Strategy Committee for Social Services Reform – a smaller and more cohesive group of ministers, including the Minister of Finance, the Minister of State Services, and the senior Ministers holding the social-services portfolios.

What should be their responsibilities?

The committee's purpose would be to deliver the Government's objectives for reforming the social services system. It would need clear terms of reference and responsibility for delivering the improvement programme. Its focus would be on developing and implementing the long-term strategy. Responsibilities could include:

- setting strategic objectives for improving the social services system as a whole;
- strategic prioritisation of effort;
- specifying and allocating tasks for improving the delivery of social services across the portfolios that are responsible for service delivery and central agencies that have broader responsibilities;
- building capability; and
- promoting continuous improvement and spreading good practice where any service models chosen are not well adapted to promoting these internally.

R14.1 A small and cohesive committee of ministers drawn from relevant service delivery and central portfolios should be responsible for leading the Government's reform of the social services system.

What departmental support is needed?

The reform programme involves many tasks and people from across the public service would be called on to implement them, frequently working with non-government service providers. Specific task allocation would need to be worked out on a case-by-case basis. The ministers responsible for the reform programme would need departmental support to help them to develop the overall strategy, to translate this strategy into actions and oversee their implementation.

While this support could be spread across portfolio departments, this could lead to reforms being looked at through a portfolio lens rather than through a wide-angle lens that takes in the social services system as a whole. In the past, a portfolio-based approach has held back the implementation of system-wide improvements. A new approach is needed.

The Commission is therefore proposing that an "Office of Social Services"[94] is established, possibly in a central agency. The Office would be required to take a whole-of-system approach. It would:

- help the ministers to develop the overall reform strategy; oversee its implementation and publish reports on progress; and refine and improve the reform strategy in the light of lessons learnt during implementation;
- develop whole-of-system data and analysis – both performance data and diagnostics identifying priorities (eg, to support judgements required for investment approaches to social services);
- undertake research on system-wide issues and provide advice to the Social Sector Board of Chief Executives and, through that Board, to the Ministers on the Strategy Committee for Social Services Reform;
- undertake evaluations of the performance of the social services system;
- provide advice and design guidance for agencies engaged in commissioning; and

[94] The Commission does not have a view about the appropriate title for this Office.

- promote continuous improvement including the development of commissioning and contracting capability across the system.

The Office of Social Services would need clear terms of reference that steer it towards favouring client-centred, devolved, and data-rich approaches and whole-of-system thinking, in effect becoming the guardian of those principles. The roles of the Office should be specified so as to ensure a clear division between its system-wide responsibilities and the portfolio responsibilities of the social services departments. For example, while departments develop their own commissioning and contracting capability, the Office would encourage the sharing of capability across the public sector as a whole, perhaps by developing a "community of practice" facility, through which practitioners from different agencies and providers could learn from each other by sharing their experiences.

R14.2

The Government should establish an Office for Social Services, preferably within a central agency, to:

- help ministers to develop the overall reform strategy and oversee its implementation;
- develop whole-of-system data and analysis – both performance data and diagnostics identifying priorities;
- undertake research on system-wide issues and provide advice to the Social Sector Board of chief executives and to the relevant ministers;
- undertake evaluations of the performance of the social services system;
- provide advice and design guidance agencies engaged in commissioning; and
- promote continuous improvement and the development of capability across the system.

The Office would need clear terms of reference that steer it towards favouring customer-centred, devolved and data-rich approaches and whole-of-system thinking.

14.3 Strengthening the incentives for implementation and sustained improvement

Establishing ministerial responsibilities and a new Office of Social Services to support the ministers does not fully address the dilemma outlined at the start of this chapter: that a government agency (even a new one) may be conflicted if given the task of driving change that transforms and potentially reduces the role of government. This section suggests measures that would help to sustain, reform and build in incentives for continuous improvement:

- a process for independent review of the reform programme;
- removing unnecessary barriers to reform;
- building in incentives that reward improvement;
- transparently reporting the return on investment in social service programmes;
- establishing a process for reviewing existing social service programmes; and
- performance benchmarking.

Independent progress review

Reform of social services needs to be informed by perspectives from outside government, particularly providers, their clients and independent experts. This is particularly important given that many proposals involve role changes that the public service may find uncomfortable. Four years ago, the Government used the Welfare Working Group, made up of expert academics, employers and community leaders, and supported by international experts, to provide it with advice about key aspects of the welfare system. This external advice and its transparency, and the continuation of the Group's advice through the Work and Income Board, were instrumental in achieving the radical changes contained in the Investment Approach, described in Chapter 9. Other examples are the Biosecurity Ministerial Advisory Committee and the Minister for Social Development's proposal to establish a "Modernising Child, Youth and Family Services Expert Panel" (Box 14.2).

Box 14.2 **Ministerial Advisory Committees**

Two examples of ministerial advisory committees that include members from outside government are:

Modernising Child, Youth and Family Expert Panel

The Minister of Social Development has proposed that this panel be established to oversee the development and implementation of the Modernising Child, Youth and Family (CYF) Business Case. The Minister received the first draft of the CYF Business Case in December 2014, and considered that it was a good starting point but needed development. The Minister therefore decided to establish an Expert Panel, to: inject fresh thinking into the development of the Business Case; incorporate much greater external expertise; and provide her with greater assurance on the development and implementation of the Business Case. The Minister proposes that the Panel will be supported by an MSD-based secretariat, and that Cabinet will direct social and justice sector agencies to comply with the secretariat's information requests. The Panel and secretariat will be funded from within MSD baselines.

Biosecurity Ministerial Advisory Committee

This committee provides the Minister for Biosecurity with independent advice on the performance of the overall biosecurity system. Its roles include helping the Minister to identify opportunities to improve the system by adopting a whole-of-system approach and to advise the Minister and department on strategies and policies covering the end-to-end biosecurity system.

Source: Office of the Minister of Social Development, 2015; Ministry for Primary Industries, 2010.

A similar expert group (or Ministerial Advisory Board) could help to maintain the momentum of the proposed programme for improving the delivery of social services, by independently reviewing the Government's progress. Unlike the proposed Modernising Child, Youth and Family Expert Panel (CYFEP), the proposed Panel would not develop the Business Case. The Commission has already in this report prepared the foundations for this business case, and the proposed Office of Social Services would be responsible for developing it further into specific reforms suitable for implementation. However, the proposed Ministerial Advisory Board would perform the second role of the CYEFP, and would advise the Committee of Ministers on progress with implementing the reforms. It could be required to undertake public consultation to inform its reviews, and to publish those reviews on its website. It would need support from the Office of Social Services, but would report to the Committee of Ministers. Its effectiveness would be increased if the Government was obliged to respond to its reviews. However, its recommendations should not be binding on the Government, which is responsible for determining the pace and direction of change.

The Ministerial Advisory Board could use the progress reports prepared by the Office of Social Services as its starting point, and would need to establish or be given a set of criteria against which to assess the Government's progress. Given the concerns outlined in this report, it could be asked to review the progress in implementing reform by assessing progress towards:

- evaluating existing programmes;
- refreshing or removing programmes which evaluation has shown to be defective;
- encouraging integration where appropriate;
- facilitating worthwhile experimentation, learning and innovation;
- devolving decision making; and
- avoiding undue focus on short-term decisions.

Transparent reporting by this group to Parliament and to the public could help build common understanding, and discourage watering down of change by successive governments.

Removing unnecessary barriers to reform

Ongoing reform would be facilitated by identifying and removing features of current arrangements that make it more difficult to improve the delivery of social services. Some examples are given below.

- Capability gaps, as noted above, impede improvement in areas such as commissioning and contracting. They need to be addressed.
- Chapter 5 noted that multi-category rather than specific budget appropriations can help to remove what might otherwise be a barrier to worthwhile integration of service delivery. However, the Commission has heard that little use has been made of multi-category appropriations, although the reasons for this are not clear. The Committee of Ministers could usefully commission an assessment of whether and how the current approach to appropriations is unnecessarily impeding integration of service delivery and, if it is, how the impediment could be removed.
- Chapter 11 reported gaps in complaints mechanisms. Users of social services may oppose moving to more devolved approaches to providing social services if they are concerned about inadequate procedures for handling their complaints about the price or quality of social services.

Build in incentives that reward good practice

Reform can be enhanced by building in incentives that reward good practice and that build up support for the reform direction.

- Box 14.1 explained the Expert Advisory Group's proposal that in the health sector professional and financial incentives could be used to reward good practice at the local level and to build momentum for increasingly devolving decision making away from the centre, albeit within a framework of centrally determined national goals. The appropriate structure and combination of incentives will probably vary between social services, but this example illustrates the significance of building careful design of incentive structures into proposals for improving particular areas of social services.
- Chapter 6 suggested that commissioning should take into account how different models of service delivery build in incentives that reward good practice. Training in commissioning skills and building career paths in commissioning would also be helpful.
- Chapter 12 proposed that incentives to improve contract management would be enhanced by building a career path around this discipline within the public sector, by improving training and the exchange of knowledge within the public sector, and by building effective contract management into the reviews of agencies undertaken through the Performance Improvement Framework.

Increase reporting of the return on investment in social programmes

Chapter 9 set out some benefits from measuring and reporting the return on investment in social programmes. Such reporting would highlight progress on improving the performance of particular programmes. Their desire to avoid criticism for slow improvement or deterioration in rates of return would encourage governments to persevere with the broad improvement strategy.

Review social service programmes

Chapter 2 described a general reluctance to end outdated programmes. The beneficiaries of these programmes may resist changes they expect to make them worse off, even if there are now better ways to deliver a service or the need may have changed. However, persevering with outdated programmes holds outcomes below their potential, and would impede the reform proposed in this report, by making it necessary to "work around" existing programmes.

The Government could reduce this resistance to change by initiating comprehensive and transparent evaluations of existing social service programmes against specified criteria, which might include whether:

- they have a clearly specified, relevant, objective and desired outcome;
- they are achieving their objectives and outcomes;
- there is evidence of innovation in service delivery through the programmes;
- they are appropriately integrated with other programmes;
- they adopt an approach that matches the time duration of the problem that is being addressed; and
- the programme has already been evaluated.

Given the large number of programmes, the cost of reviewing them all would be substantial. Options to manage this cost include only assessing programmes that exceed a threshold level of expenditure; or prioritising the reviews according to criteria such as expenditure and the length of time since they have been evaluated. Costs could also be managed by providing a range of review models that enables the depth and sophistication of reviews to be proportionate to the significance of the programme being reviewed.

The evaluations could be conducted by, for example, the department sponsoring the programmes, with oversight by the proposed Office for Social Services. While evaluations of programmes undertaken by their sponsoring departments would not be independent, this concern could be reduced by departments:

- establishing independent steering committees to ensure quality control, made up of people who take an economy-wide perspective and are drawn from outside the department;
- publishing initially the terms of reference for each review and the approach to be taken, and subsequently the evaluation itself;
- enabling public consultation during reviews; and
- making reports available for external assessment.

Performance benchmarking

As has been argued earlier, outcome reporting from government programmes is not well done, and does not tend to encourage reporting across portfolio lines.

In Australia, the Australian Productivity Commission (APC) undertakes performance benchmarking of government services through the report on government services (ROGS), which compares the efficiency and effectiveness of Commonwealth and State/Territory Government services such as education, health, justice, emergency management, community services and housing. Until 2010, the New Zealand Ministry of Social Development produced *The Social Report* yearly. This document reported 43 indicators in 10 key policy areas such as health, economic standard of living, and safety and social connectedness (Ministry of Social Development, 2010). *The Social Report* included similar information to the ROGS, although the ROGS includes a more detailed range of performance indicators in a wider range of policy areas.

In their 2012 joint study on "Strengthening trans-Tasman economic relations", the two Commissions suggested that the Australian and New Zealand Governments should determine an appropriate approach for New Zealand to participate in the ROGS (Australian Productivity Commission and New Zealand

Productivity Commission, 2012). While this would not directly measure the Government's progress in reforming social services, it would strengthen the incentives to improve the performance of social services in general.

R14.3

To strengthen the incentives for reforming the social services system, the Government should:

- establish a Ministerial Advisory Board to report publicly on the Government's progress in reforming the social services system;
- remove unnecessary barriers to reform;
- provide positive incentives for improvement;
- expand the measurement and public reporting of the return on investment in social services programmes;
- establish a programme for reviewing social service programmes against specified criteria; and
- seek beneficial opportunities to undertake joint benchmarking of social services, such as through participating in the Australian Report on Government Services.

The government agencies responsible for social services programmes should commission the reviews. Reviews should be overseen by independent steering committees, published and subject to assessment by the Ministerial Advisory Board;

15 The size of the prize

Key points

- If implemented well, the recommendations in this report can move the social services system closer to the well-functioning system described in Chapter 1.
- For New Zealanders, moving closer to a well-functioning system would create more value from the tens of billions of dollars that the Government spends on social services each year, greater confidence that services will be available when they need them, and more assurance that the system is meeting their expectations around access and care for society's most vulnerable.
- For current clients, moving closer to a well-functioning system would mean services better matched to their individual circumstances, greater information about the service options, less time wasted on bureaucratic processes, and greater empowerment and choice between service providers.
- For service providers, moving closer to a well-functioning system would improve clarity and certainty around government funding, reduce money spent on government processes and allow greater flexibility to innovate, and tailor services to client needs.
- For government social services agencies, moving closer to a well-functioning system would mean a better understanding of their role as system stewards, being better able to demonstrate the value that services are creating, and greater clarity around the service interventions that work and those that do not.
- For the government, moving closer to a well-functioning system would mean being better able to demonstrate their achievements, reduced political risk from under-performing services, and more transparency around the relative returns from different uses of public money.

This chapter aims to provide insights into the type and magnitude of benefits that reform can deliver. The chapter begins by discussing what moving closer to a well-functioning system would mean for different participants in the system. It then illustrates the type of benefits, and some indications of orders of magnitude, that reform could bring.

15.1 A system that meets the needs of all participants

This inquiry seeks to identify measures that will lead to a well-functioning social services system. The report makes a number of findings and recommendations on how to achieve this goal. The key themes of the findings and recommendations are set out below.

- Better measurement of the value and cost-effectiveness of social services is essential.
- Defining desired outcomes and taking them seriously is crucial.
- Many system weaknesses trace to problems in institutional design and service commissioning.
- Smarter and more deliberate institutional design and commissioning are needed.
- Commissioning organisations should select from a broad portfolio of service models – including, in particular, models that increase client choice.
- More experimentation, learning and innovation are needed at all levels of the system.

- Investment in, and making good use of, a comprehensive, client-centred data infrastructure, data analytics and safe data sharing will yield high returns.
- Devolving services and service design can empower providers, whānau and individuals, unlock innovation and improve system performance.
- The centre should focus on the vital role of system steward.

If implemented well, the reforms in this report can move the social services system closer to the well-functioning system set out in Chapter 1.

For New Zealanders this would mean a system that creates more value from the tens of billions of dollars that the Government spends on social services each year. It would mean greater confidence that services will be available when they need them. And it would mean greater assurance that the system is meeting their expectations around access and the effective care of society's most vulnerable.

For clients, moving closer to a well-functioning system would mean accessing services better matched to their individual circumstances. It would empower them by means of better information about the service options available to them, and more choice among providers of services. And it would mean less time wasted on multiple bureaucratic processes.

For service providers, moving closer to a well-functioning system would mean greater clarity and certainty around government funding. It would mean less money spent on government processes and greater flexibility to tailor services to meet the needs of clients. And it would mean more scope for innovation and greater rewards for innovation.

For government social services agencies, moving closer to a well-functioning system would mean being better able to deliver needed services to clients. It would mean being able to show that the system is operating efficiently, and that the agencies are creating value from the use of public funds. Agencies would be better able to focus their efforts on high-value areas due to greater clarity around the service interventions that work and those that do not. And it would mean government agencies have a well-defined role as system stewards and a better view of the performance of their contractors.

Finally, for the Government, moving closer to a well-functioning system would mean being better able to demonstrate its achievements to voters and Parliament. It would mean a reduction in political risk caused by under-performing services. And it would mean more transparency around the relative returns from different uses of public money.

15.2 Illustrating the benefits of system improvement

This section illustrates the benefits of system improvement to clients and to the broader society and economy.

Benefits to clients

The social services system ultimately exists to improve the wellbeing of New Zealanders. There is good reason to believe that improvements in the social services system can have a positive impact on client wellbeing. Studies on wellbeing have repeatedly shown:

- the highly negative impact of unemployment on a person's life satisfaction (Winkelman & Winkelman, 1998; Lucas et al., 2004; Blanchflower & Oswald, 2011; Brown, Woolf & Smith, 2012);
- the positive impacts of good physical and psychological health on overall life satisfaction (Diener et al., 1999; Dolan, Peasgood & White, 2008; Diener & Chan, 2011; Shields & Wheatley, 2005; Brown, et al., 2012);
- the strong association between social connections and life satisfaction (Kahneman & Kruger, 2006; Helliwell, 2008; Helliwell & Wang, 2011);

- the detrimental impact of living in an unsafe or deprived area on life satisfaction (Ferrer-i-Carbonell & Gowdy, 2007; Lelkes, 2006; Shields & Wheatley Price, 2005).

Benefits to society and the economy

Benefits to clients commonly spill over into society. For example, take the case of a young person who receives services that enable them to stay in school. Empirical studies have shown that, on average, an additional year of education increases an individual's wages by around 5% to 15% (New Zealand Treasury, 2004). So the young person receives personal benefits in the form of a better job and higher wages. Yet studies have also shown a strong correlation between education levels and broader social benefits such as lower crime rates.

Henry et al. (1999) found that the longer male students stay in school past the minimum leaving age of 15 the lower their chances of criminal behaviour in young adulthood. A more recent study in Sweden found that one additional year of schooling decreases the likelihood of men being convicted of a crime by 6.7% and incarceration by 15.5% (Hjalmarsson, Holmund & Lindquist, 2014). In the United Kingdom, Machin, Marie and Vujić (2010) estimated that a 10% increase in the age at which people leave school would lower the number of convictions for property-related crimes (per 1000 people) by 2.1%. They further estimated the net social benefits from a 1% reduction in the number of people without education qualifications to be between £32 million and £87 million.

Studies also illustrate a positive relationship between education and health (Wilson, 2001; Oreopoulos, 2003; Lleras-Muney, 2002). New Zealand Treasury (2004) concluded:

> … the evidence from a wide range of longitudinal and cross-sectional studies in a number of countries, using different methods, different measures of health, and different control variables, indicates that better-educated people experience better health. This finding generally holds when the greater earnings of better-educated people are taken into account. (p. 20)

In addition to the personal benefits from better health, there are social benefits such as less demand on health services and less stress and anxiety for friends and family. Even though these social benefits are difficult to quantify, they are significant and important.

The reforms in this report also have the potential to bring significant economic benefits for all New Zealanders. These economic benefits broadly fall into two groups:

- improvements in the efficiency of government expenditure; and
- improvements in the stock and quality of human capital.

Improving the efficiency of government expenditure

Reform of the social services system can help increase the value derived from each dollar the government spends on social services.

MSD's Work and Income services are a good example of the gains that are possible from adopting an "investment approach" to social services. Research indicated there are significant gains from targeted early intervention of specific client groups.

- Around 75% of total liability in the benefit system relates to people who received a benefit before the age of 20. These people also remain the most vulnerable to remaining on a benefit throughout their life.
- Almost 90% of all people receiving youth benefits were supported by a parent also on a benefit. For older clients who were not on a youth benefit (ie, aged 18 to 25), almost three quarters were supported by a parent on a benefit (Edwards & Judd, 2014). [95]

[95] "Youth services for youth payments" or "young parent payments".

Similarly, the Christchurch Health and Development Study found that youth are twice as likely to be welfare dependent at age 21 if they are raised in a semi-skilled or unskilled family. And they are three times as likely to be welfare dependent if they leave school without qualifications.

A well-functioning system would see government funding targeted at areas with a high return on investment, improving both the wellbeing of clients and the efficiency of government spending.

Improvements in human capital

Many social services have a direct impact on the accumulation of skills, knowledge and capabilities of New Zealand's workforce; that is, an impact on the level of human capital within the economy. Human capital is an important driver of labour productivity, which in turn is a key driver of long-run economic growth and societal wellbeing.

Health and education are two of the most important aspects of human capital. In general, the healthier and better educated people are, the greater their participation in the workforce and the more productive they will be at their jobs. It is worth noting that over the past two decades New Zealand has experienced slow labour productivity growth compared to other OECD countries (NZPC, 2013b).

There is evidence too that increasing human capital for people at the lower end of the income distribution will have a positive effect on economic growth and wellbeing. For example, the London School of Economics (2013) described the United Kingdom's "long tail of poorly performing schools and pupils" as constituting a "waste of human resources on a grand scale". Adding that the situation "holds back economic opportunities and is detrimental to growth" (p. 17).

Similarly, New Zealand Treasury (2012) noted New Zealand's "wide distribution of educational achievement" (p. 1) and that the socio-economic background of New Zealand students "exerts a much larger influence on their achievement than in most other OECD countries" (p. 2). They also estimated the benefits of lifting overall achievement:

> …if overall student achievement could be lifted by 25 PISA points (putting New Zealand with the top performers in the OECD), GDP would be expected to be higher than it otherwise would be by 3-15% by 2070. This is a large growth impact from a single contributing factor. (p. 2)

Moving towards a well-functioning system can therefore help realise the economic benefits of increasing the number of people in jobs, the quality of those jobs and labour productivity.

15.3 Conclusion

The reforms outlined in this report have the potential to improve the efficiency and effectiveness of New Zealand's social services system, in turn raising the wellbeing of clients and of citizens more generally. The complex nature of social services makes estimating the magnitude of these benefits difficult. The Commission's judgement, supported by New Zealand and international research, is that there are significant economic and social gains to be had. Achieving reform will require political commitment and strong leadership, and a willingness of government to take on greater responsibility as a steward of the social services system.

Summary of questions

Chapter 5 – Institutional architecture

Q5.1 Which communities of interest would like to be part of greater devolution of service commissioning?

Chapter 6 – Commissioning

Q6.1 What mechanisms are appropriate to determine whether prices for "fully funded" services are set at a level that allows an efficient provider to make sustainable returns on the resources they deploy? Should there be an independent body to resolve disputes? If so, should it take the form of an arbitrator or a regulator?

Chapter 7 – A system that learns and innovates

Q7.1 How can government agencies manage contracting processes in a way that best leads to the development and dissemination of innovative approaches to service design and delivery?

Chapter 8 – Leveraging data and analytics

Q8.1 What difficult-to-solve social problems would be amenable to new solutions developed by data-sharing partnerships between the Government, non-government organisations and academics?

Chapter 9 – Investment and insurance approaches

Q9.1 What non-government organisations have the potential to become social insurers for enrolled populations? What are the potential advantages and problems of a multiple-insurer approach?

Chapter 10 – Service integration

Q10.1 Should the government seek to align the geographical boundaries used by its social delivery agencies for defining service responsibilities? What are the advantages and disadvantages of aligning boundaries?

Chapter 11 – Client choice and empowerment

Q11.1 The Commission is interested in hearing from people with first-hand experience working under Individualised Funding and Enabling Good Lives. Have any specific studies been undertaken into the impact of these two programmes on workers?

Chapter 13 – The Māori dimension

Q13.1	Has the Commission adequately understood the challenges of devolving funding on the basis of a population group or community of interest?

Findings and recommendations

The full set of findings and recommendations from the report are below.

Chapter 2 – Social services in New Zealand

Findings

F2.1 As a percentage of GDP, public expenditure on social services is currently higher in New Zealand than the OECD average. Expenditure is also higher than common comparator countries such as Australia and Canada, but lower than the United Kingdom.

F2.2 From a client's perspective, government processes for delivering social services can seem confusing, fragmented, overly directive and unhelpful.

F2.3 Existing social services are not well placed to deal with multiple and inter-dependent problems encountered by many of New Zealand's most vulnerable individuals and families.

F2.4 The social services system fails to create and share information about which services and interventions work well and those that do not.

F2.5 Social services are often poorly coordinated, resulting in missed opportunities to improve service outcomes for clients.

F2.6 Opportunities exists to reduce the transaction costs of contracting out social services. From a provider's perspective, onerous government processes can appear wasteful in that they draw resources away from providing services.

F2.7 Strong evidence exists that early intervention in social problems can significantly improve outcomes for individuals and the return on government expenditure. Yet, the social services system's investments in early intervention are piecemeal and patchy.

F2.8 Ministers and government agencies tend to focus on the flow of new social services initiatives. Relatively little attention is given to actively managing the large stock of social service programmes that account for the majority of public expenditure.

F2.9 Over the past 20 years, numerous reports into the social services system have highlighted a consistent set of problems and proposed a set of similar solutions.

Chapter 3 – New ideas in New Zealand and elsewhere

Findings

F3.1 Social service programmes that give clients an entitlement to a level of support and choice over how that entitlement is spent promote innovation and responsiveness in provision. Yet such programmes create pressures to expand entitlements, increasing programme costs. Programme design needs mechanisms for keeping costs within budget.

F3.2 Successful implementation of substantial new social services schemes is assisted by a clear vision of the destination, careful staging and trials of new approaches, continuing community consultation and independent evaluation to guide design and build support.

F3.3 Social bonds stimulate innovation by the Government sharing risk with investors and linking payments to outcomes without prescribing programmes in detail. They involve complex institutional arrangements and take time and skill to set up. They may be most useful in demonstrating the effectiveness of new approaches, rather than being applied widely across the social services.

F3.4 Philanthropic organisations like to take a lead in demonstrating the success of innovative approaches to the design and delivery of social services. They look to the government to pick up and fund those approaches that prove successful.

Chapter 4 – An assessment of the social services system

Findings

F4.1 Many government institutions were created in a different era of public administration and not set up to deal with the modern demands on state-funded social services. This is particularly so when clients have complex, inter-dependent needs that span the responsibilities of multiple agencies and ministers.

F4.2 Accountability and delivery structures within government agencies place a high emphasis on managing costs and political risks. This can result in a lack of focus on value, and in highly prescriptive contracts that work against innovation in services.

F4.3 Tightly prescribed government contracts reduce the flexibility of providers to tailor services to meet the needs of clients. This is problematic in cases where the tailoring of services would improve client outcomes.

F4.4 The lack of agreed measures of value has led to too little measurement and reporting of the outcomes achieved from social service programmes. Aversion to political risk has compounded this. The combined effect has often been performance reporting that, while costly, provides few insights into the impact and worth of programmes.

F4.5 Government agencies often do not subject their social service programmes to rigorous and transparent evaluation and learn from previous experience.

F4.6 There is useful information at all "levels" of the social services system, but decision makers frequently lack important relevant information to make good decisions. Overcoming this requires either moving relevant information to existing decision makers, or moving decisions to those with the relevant information.

F4.7 Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the market is not performing as well as it could.

F4.8 Contracting models that give a service provider a geographic monopoly for the duration of a contract deny clients a choice of services and providers, and create a poor incentive for providers to deliver good services to clients.

F4.9 Problems with contracting out are often symptoms of deeper causes such as the desire to exert top-down control to limit political risk. Letting go of central control will require agreed measures of the value created by social services, and a willingness to explore different institutional designs and approaches to commissioning.

F4.10 Previous attempts to reform social services have often struggled because of competing "worldviews" that inhibit agreement on problem definitions and the underlying causes of problems.

F4.11 The organisational cultures of providers and government agencies tend to be resistant to change and can be paternalistic towards clients.

Chapter 5 – Institutional architecture

Findings

F5.1 Top-down control has significant limitations. Expanded use of other architectures may achieve substantial improvements in the performance of social services.

F5.2 The case for large-scale devolution of responsibilities for social services to local government does not appear strong in New Zealand. It would not resolve some significant problems of the current architecture.

F5.3 Delegation of responsibility for social services to semi-autonomous government entities can improve on top-down control where such entities have better information, capability and incentives to make and implement decisions that maximise social returns.

F5.4 Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. But these mechanisms are not sufficient on their own to provide flexibility at the interface between providers and clients.

F5.5 Improved measurement of service cost and impact on client outcomes – such as that being pursued with the Investment Approach – may support further delegation of authority to shift funding between budget appropriations.

F5.6 Institutional architecture and the enabling environment require active management if social services are to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall somewhat short of what is required of a system steward.

Recommendations

R5.1 The Government should make greater and smarter use of delegation and devolution in the social services system. These architectures often feature better incentives for encouraging innovation and improving social services outcomes.

R5.2 The Government should take account of the role and value of volunteers as an important part of social services in drafting new legislation to ensure that volunteers are not crowded out by new regulation. The Government should pay particular attention to this issue when finalising the Health and Safety Reform Bill.

R5.3 Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government needs to take responsibility for system stewardship, and for making considered decisions that shape the system. This includes the overarching responsibility for monitoring, planning and managing resources in such a way as to maintain and improve system performance.

Chapter 6 – Commissioning

Findings

F6.1 Effective commissioning is fundamental to well-functioning social services. It is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way.

F6.2 Managed markets – in which providers compete for market share – are likely to stimulate better performance and more innovation than where services are simply contracted out. They reduce the financial risks of providers, as they allow more time and opportunity to react to signals of poor performance (relative to loss of contract).

However, managed markets are complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

F6.3 Trust models capitalise on the intrinsic motivation and professional behaviour of providers. These models require careful design to ensure sufficient peer monitoring and regulatory oversight, and work best with hard budget limits and strong client voice.

F6.4 The *shared goals* service model reflects a view that complex social problems are best addressed by the organisations and social-services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

This service model promotes common ownership of problems and goals, and so encourages constructive and integrated problem solving and creative solutions.

Organisations commissioning services using a shared goals model need to set high-level goals within a broad performance-measurement framework that is acceptable to those participating in shared goal setting, and leave them room to develop their own compatible, but subsidiary goals and measures.

F6.5 Consultation with service providers and users during service commissioning can discover information that can be used to clarify objectives and design a better service, and to build wider support for, and ownership in, a service design. But consultation can cause delay, and involves costs.

F6.6 Complaints mechanisms are part of a well-functioning learning system, and signal the commitment of an organisation to empower its clients.

F6.7 Service commissioning may need to adopt different service models (or significantly adapt their adopted model) to cover urban and rural populations respectively. A differentiated response is likely more effective than a one-size-fits-all model.

F6.8 Government faces incentives to underfund contracts with non-government providers for the delivery of social services, with probable adverse consequences for long-term service provision. These incentives are consistent with reports from many providers that they are underfunded. However, those reports are not definitive without clear criteria to determine a "correct" level of funding. This points to a need to be explicit about the basis of funding, the appropriate evaluation criteria, and the pricing processes applied by government.

F6.9 Providers capable and confident of delivering services in the way and to the standard specified by government are likely to welcome a commitment to fully fund such service contracts. Those providers who wish to pursue goals not necessarily aligned with those of government should not expect full funding.

Recommendations

R6.1 Formal contracts between an agency and its in-house service delivery arm make costs and expectations explicit. They should be mandatory when that delivery arm competes with non-government providers, and are desirable in other cases.

R6.2 Commissioning organisations should ensure that in-house provision is treated on a neutral basis when compared to contracting out and other service models. This requires independence in decision-making processes. In-house provision should be subject to the same transparency, performance monitoring and reporting requirements as would apply to an external provider.

R6.3 Commissioning agencies should consider a wide range of service models, and carefully select a model that best matches the characteristics of the service being commissioned.

R6.4 Commissioning agencies should always consider client-directed service models, as they empower individuals and lead to more effective services. However, those models are not always applicable. Where other service models are chosen, client choice should be supported to the extent feasible.

R6.5 Commissioning agencies need to be clear why they are consulting and convey this clearly. Agencies should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

R6.6 The government agencies responsible for commissioning social services should actively build staff skills and agency capacity to make effective commissioning decisions.

R6.7 Government should initiate some well-resourced demonstration projects designed to build awareness of and capability in commissioning.

R6.8 Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decision. Legitimate types include full funding, contributory funding, tied and untied grants, and no funding.

R6.9 Full funding is appropriate when governments are paying non-government organisations to deliver the Government's goals or commitment, and want full control over the service specification.

R6.10 "Fully funded" social service payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

R6.11 Agencies commissioning social services need to be prepared to understand the costs that providers face in supplying services. They should invest in the skills, tools and research necessary to develop costing models. The Treasury could provide useful cross-government guidance.

R6.12 Government funding for community development should be through grants for that purpose, and co-funded in some form by the relevant community.

R6.13 When commissioning services, government agencies should be open-minded about the size or organisational form of current and potential social service providers. Preconceptions about provider size or form risk keeping out new entrants and reducing innovation.

R6.14 Provider subcontracting can be an efficient way to reduce the number of relationships managed by government agencies, and to improve the quality of relationships overall. Government agencies should be open to providers of social services subcontracting the delivery of services to other providers.

Chapter 7 – A system that learns and innovates

Findings

F7.1 Service models without overly centralised control encourage learning in the social services system. They foster diversity and encourage the selection and expansion of effective services and the curtailing of less effective ones.

F7.2 Social services providers have not, for the most part, been affected by the disruptive innovation that has transformed many market services. Services firms in other parts of the economy have adopted new productivity-enhancing business models enabled by information and communications technology.

F7.3 Social service providers have many opportunities to use information and communications technology to transform the way they engage with clients and commissioning organisations, and the way they design, monitor, evaluate and adapt their services.

F7.4 The social services system appears to be too focused on central government as a source of new ideas, and as a gatekeeper of which ideas are trialled. This limits the size and diversity of the pool of new ideas available to commissioning organisations. The system needs to do more to permit and encourage trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, service users and communities.

F7.5 Many social services currently involve risk-averse government agencies contracting for services from not-for-profits who are unable to take on the risk of innovation. The combination stifles innovation.

F7.6 Innovation is risky and sometimes costly. Not-for-profit organisations cannot easily raise funds for investments. As a result, access to capital and limited cashflow are significant barriers to innovation in parts of the social services.

F7.7 Many government contracts with social services providers are overly prescriptive. This stifles innovation.

F7.8 Good information that compares the performance of services using a common measure is crucial for building support for spreading successful innovation and eliminating poorly performing services

F7.9 Many not-for-profit organisations find it difficult to fund evaluation on top of service delivery and, in any case, lack the capability for good evaluation.

F7.10 Decision makers in the social services system lack good timely information on what is working, for whom and through which service providers. This undermines the ability of the system to learn and adapt.

F7.11 The standard programme-based approach to social services evaluation involves a trade-off between good evaluation practice, and cost and time. The standard evaluation approach may be best applied to larger programmes, or to experimental work that will likely lead on to larger-scale implementation.

F7.12 The current approach to evaluation in the social services fails to make cost-effective use of the wide range of information being generated by daily interaction between users and services.

Recommendations

R7.1 Organisations commissioning social services should set payments at a level that allows an efficient provider to make a sustainable return on resources deployed. This will give providers the confidence and greater capacity to invest in innovation.

R7.2 Organisations commissioning social services should look for opportunities to contract providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should own the intellectual property rights.

R7.3 Social services commissioning organisations should shift more contracting towards contracting for outcomes and make greater use of decentralised service models. Doing both would give providers increased flexibility and incentives to innovate.

R7.4 Government social services commissioning agencies should respect the confidentiality of innovative ideas that providers submit as part of a tender or otherwise. Where government agencies wish to spread an innovation that a third party creates, they should negotiate for the rights to do so.

R7.5 Government agencies should explore a variety of additional initiatives to encourage innovation in the social services. These could include innovation funds, prizes and in-house innovation labs.

R7.6 Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. When the Government funds social services evaluations, it should require adherence to those principles.

R7.7 Commissioning organisations and providers should monitor and evaluate in real time a much wider range of services than at present. This would enable commissioning organisations and providers to respond to trends as they emerge and offer significant improvements in efficiency and effectiveness

Chapter 8 – Leveraging data and analytics

Findings

F8.1 Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design, commission and provide effective services. Better data and data analysis will help target resources to have a greater impact on improving outcomes.

F8.2 Social services have lagged behind many other service industries in adopting data-driven innovation.

F8.3 Establishing standards for data sharing and developing a client-centred data infrastructure covering many dispersed social services providers requires a collective solution across government agencies and social services organisations.

F8.4 Modern data technology and analytics can support a devolved approach to guiding investments in social services, by collecting and analysing data on service costs and on client participation in services and subsequent outcomes.

F8.5 Where individuals give consent, government agencies could give third parties, such as non-government organisations and academia, access to identifiable personal data to support the development and provision of innovative social services.

Recommendations

R8.1 The Social Sector Board should initiate a project to coordinate client-level operational data sharing to increase the scope, power and accuracy of the Government's investment approach to targeting social services. The work should follow the principles recommended by the New Zealand Data Futures Forum.

R8.2 Government social services agencies and social services providers should capture information on their clients and services in a consistent way. Doing so would allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

R8.3 The Government should require government social services agencies engaged in sharing personal data to adhere to the four guiding principles of value, inclusion, trust and control proposed by the New Zealand Data Futures Forum.

R8.4 The Government should set up governance arrangements that secure confidence and trust in the sharing of data across the social services, provide advice to government and data users on proposals for change, and develop best-practice guidance.

R8.5 The Social Sector Board should initiate a project on social sector data integration that includes the design of institutions and processes to develop a comprehensive, wide-access, client-centred data infrastructure. This infrastructure should be accessible to commissioning organisations, providers, clients and researchers of social services.

R8.6 The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. This should, where individuals consent, include sharing identifiable personal data held by government agencies.

Chapter 9 – Investment and insurance approaches

Findings

F9.1 Decisions made using the Investment Approach are likely to be significantly correlated with what citizens care about, for those services and clients where the approach is applicable. Its wider adoption would likely lead to substantial improvements in the targeting of social services.

F9.2 Borrowing now to fund investments that will reduce future social welfare liability is good in principle, but has risks in practice. A higher burden of proof is required to justify such borrowing, relative to spending funded from current income.

F9.3 A social insurance model aligns the long-term incentives of insurers and their members. Because social insurers face the long-term costs of service decisions, they have the incentives to make sound decisions about early intervention and service quality.

F9.4 A social insurance model with multiple non-government insurers has good opportunities and incentives for innovation, and may out-perform models with a single government insurer. Such models face difficult design and transition issues.

Recommendations

R9.1 The Investment Approach could usefully be applied more widely. Future welfare liability – its underlying proxy for social return – should be further refined to better reflect the wider costs and benefits of interventions.

R9.2 The Investment Approach should be extended to operate at a cross-programme, cross-agency level.

Chapter 10 – Service integration

Findings

F10.1 Coordinating the provision of multiple services to the same client is unlikely to work without agreement on what services the client is eligible for and which provider will take the lead. The lead can come from a service provider, a navigator, the service user or a service professional such as a lead maternity carer.

F10.2 The fragmentation of social services to the detriment of clients with complex needs is a long-standing issue that has proven difficult to resolve despite many attempts.

F10.3 Integrating services has costs as well as benefits. The challenge is to weigh these up so as to make a judgement about what type and how much integration is optimal.

F10.4 Integration is more likely to be beneficial where:

- services are linked together as a chain of services;
- clients, families or communities experience clusters of related problems; and
- the people doing the integrating are willing to work together and trust each other.

F10.5 A common phenomenon is governments undertaking multiple and overlapping integration initiatives, resulting in confusion, frustration and strain on scarce resources.

Recommendations

R10.1 Governments and service-commissioning agencies should consider whether service fragmentation is a symptom that could be most effectively dealt with by changing their institutional-design and commissioning choices.

R10.2 The Government should adopt a cautious approach to directing service integration from the centre, and should instead focus on ensuring that institutions and commissioning arrangements provide opportunities for bottom-up integration.

R10.3 Efforts to integrate social services should be attentive to organisational cultures that promote or impede integration, and should address problems through remedies, including promoting a common language and values across the system and providing opportunities for formal and informal interaction between organisations.

R10.4 The Government should assist providers to access and use operational data to improve service integration as part of investing in a better data infrastructure and safe data sharing for social services.

Chapter 11 – Client choice and empowerment

Findings

F11.1 Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the *what*, *who*, *when*, *where* and *how* of service delivery.

F11.2 In-house provision and contracting-out models can provide little reward for providers that are responsive to the needs of clients. Under some contract structures, providers may be disadvantaged by providing a better service.

F11.3 The allocation of decision rights under in-house provision and contracting-out models often casts clients as passive recipients of services, rather than active participants in decisions that impact their lives.

F11.4 In many instances clients, rather than government officials, have the best understanding of their individual needs and the combination of services they require. Clients are also often in the best position, with the support of family, friends and whānau, to integrate the services they receive.

F11.5 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery leads to a better fit between client needs and the services they receive. A better fit means that more public money is spent on services that clients value, and less on those they do not.

F11.6 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to service delivery.

F11.7 At a system level, giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery creates an incentive for providers to be responsive to client needs and to lift the quality of the services they offer.

F11.8 International evidence suggests most clients experience an increased level of satisfaction after moving from agency-directed to client-directed models of social services provision.

F11.9 Some studies have reported positive health outcomes when clients shift from agency-directed to client-directed service models. However, in general the evidence for such health improvements is weak.

F11.10 If good practices are used, most clients of social services programmes can and do exercise choice when given the opportunity.

F11.11 There is little evidence to support the claim that client direction leads to a decline in the quality of services that clients receive.

F11.12 There is little evidence to support the claim that client direction is any more or less open to fraud or misuse than agency-directed models of social service delivery.

F11.13 Available evidence indicates that client-directed models can be more expensive than agency-directed models, especially if they are not well planned and executed.

F11.14 There is limited evidence on the impact that client-directed budgets have on workers. Available evidence suggests that impacts will be highly dependent on the design of the programme and on the level of government funding available.

Recommendations

R11.1 When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society. Disability support services, home-based support of older people, respite services, family services, and drug and rehabilitation services are good prospects.

Chapter 12 – Better purchasing and contracting

Recommendations

R12.1 The Government should give an agency the task of developing a single set of up-to-date guidelines for agencies entering into contracts with non-government providers of social services. That agency should provide training on these guidelines to other agencies and providers.

To encourage agencies to use the guidelines, the Government should:

- provide training about the revised guidelines to relevant agencies and providers;
- require agencies entering a contract to sign a declaration that they have used the guidelines; and
- assess agencies' management of contracts with non-government providers in the Performance Improvement Framework reviews of agencies.

R12.2 To improve tendering practice, government agencies should face new requirements to:

- undertake reasonable consultation with providers and clients during the pre-contract phase;
- report yearly their compliance with tendering timelines;
- take account of the past performance of bidders when assessing bids. If agencies intend to ignore past performance, they should publish at the start of the tendering process the reasons why they are doing so;
- consider standardising tendering requirements, but standardisation should not be mandatory;
- develop, in consultation with providers, a risk management framework that identifies risks and how best to allocate them; and
- set contract duration in the context of their overall risk management framework, and taking into account factors such as providers' incentives to invest in relevant capabilities and equipment.

Government agencies should publish their reasons for selecting a particular contract duration.

R12.3 Departments, agencies and non-government providers should expand the use of contracting for outcomes where it is efficient to do so.

R12.4 The Government should improve the capabilities of agencies to contract for outcomes, ideally with payments for outcomes achieved in those contracts.

R12.5 Government agencies should:

- adopt a risk-based approach to monitoring contracts as part of their risk management framework; and
- publish the reasons for their chosen monitoring arrangements, including an analysis of the costs and benefits to all parties.

R12.6 The State Services Commission should develop a set of minimum expectations around the promotion of contract management capability, and require the statements of intent of relevant agencies to demonstrate how they will meet those expectations.

Chapter 13 – The Māori dimension

Findings

F13.1 Where the Treaty places duties on the Crown to take particular actions in social services in relation to Māori, these duties are in addition to, rather than a substitute for, ordinary good process.

F13.2 The Treaty settlement process is not well suited to exploring opportunities for Māori groups to have greater involvement in social service commissioning, especially as New Zealand moves into a post-settlement era.

Recommendations

R13.1 The Government should create a standing opportunity for Māori groups to initiate negotiations to increase participation in commissioning social services, outside the Treaty settlement process.

Chapter 14 – Implementation

Recommendations

R14.1 A small and cohesive committee of ministers drawn from relevant service delivery and central portfolios should be responsible for leading the Government's reform of the social services system.

R14.2 The Government should establish an Office for Social Services, preferably within a central agency, to:

- help ministers to develop the overall reform strategy and oversee its implementation;
- develop whole-of-system data and analysis – both performance data and diagnostics identifying priorities;
- undertake research on system-wide issues and provide advice to the Social Sector Board of chief executives and to the relevant ministers;
- undertake evaluations of the performance of the social services system;
- provide advice and design guidance for agencies engaged in commissioning; and
- promote continuous improvement and the development of capability across the system.

The Office would need clear terms of reference that steer it towards favouring customer-centred, devolved and data-rich approaches and whole-of-system thinking.

R14.3

To strengthen the incentives for reforming the social services system, the Government should:

- establish a Ministerial Advisory Board to report publicly on the Government's progress in reforming the social services system;
- remove unnecessary barriers to reform;
- provide positive incentives for improvement;
- expand the measurement and public reporting of the return on investment in social services programmes;
- establish a programme for reviewing social service programmes against specified criteria; and
- seek beneficial opportunities to undertake joint benchmarking of social services, such as through participating in the Australian Report on Government Services.

The government agencies responsible for social services programmes should commission the reviews. Reviews should be overseen by independent steering committees, published and subject to assessment by the Ministerial Advisory Board;

Appendix A Public consultation

Submissions

INDIVIDUAL OR ORGANISATION	SUBMISSION NUMBER
Accident Compensation Corporation	030
Age Concern New Zealand	100
Alcohol Healthwatch	084
Alliance Health Plus Trust	119
Alzheimers New Zealand	027
Anonymous	062
Aotearoa New Zealand Association of Social Workers	078
Aotearoa New Zealand Evaluation Association	037
Association of Blind Citizens of New Zealand	134
Association of Salaried Medical Specialists	085
Auckland District Council of Social Services	055
Auckland North Community and Development	022
Barnardos	012
Birthright New Zealand	128
Blind Foundation	016
Bay of Plenty Community Response Forum	053
Careerforce	050
CareNZ	099
Carers New Zealand	071
Carole Gordon	105
CCS Disability Action	065
Charlie Devenish	026
City of Dunedin New Zealand	034
Co-leaders of the Māori Party	118
Communities and Neighbours	066
Community Care Trust	096
Community Law Centres of Aotearoa	115
Community Networks Aotearoa	031
Community Networks Wellington	033
ComVoices	117
Counselling Services Centre	059
Counties Manukau District Health Board	064
Deaf Aotearoa	069
Delta Community Support Trust	013
Department of Corrections	021
Disabled Persons Assembly NZ	054
Dunedin Community Law Centre	048
Early Childhood Council	015
Ecosynergy Group Limited	131
Footsteps Education Limited	042
Graham Aitken	107
Graham Howell	017
Healthcare of New Zealand Holdings Limited	051

Hokianga Health Enterprise Trust	044
Home and Community Health Association	114
Homebuilders Family Services North Rodney	038
IHC New Zealand	080
Inclusive NZ	032
Inspiring Communities and Partners	058
Jane Lee	060
Jenny Campbell	092
John Angus	109
Kay Brereton	009
Laura Fergusson Rehabilitation	010
Lifewise	046
Local Government New Zealand	124
Lorna Dyall	116
Manawanui	008
Methodist Social Services	014
Ministry of Social Development	072
Ministry of Social Development – Cross Government Accreditation Working Group	132
Myra Harpham and Jennifer Coote	106
National Collective of Independent Women's Refuges	123
National Committee of Addiction Treatment	098
National Council of Women of New Zealand	020
National Services Purchasing, National Health Board, Ministry of Health	111
New Zealand Council of Christian Social Services	035
New Zealand Council of Trade Unions – Te Kauae Kaimahi	103
New Zealand Disability Support Network	047
New Zealand Educational Institute Te Riu Roa	040
New Zealand Kindergartens	052
New Zealand Medical Association	039
New Zealand Nurses Organisation	133
New Zealand Organisation for Rare Disorders	089
New Zealand Post Primary Teachers' Association	088
New Zealand Public Service Association	108
New Zealand Red Cross	094
New Zealand Society on Alcohol and Drug Dependence	113
NGO Health & Disability Network	070
Noelene Buckland	061
Office of the Children's Commissioner	077
Otago Youth Wellness Trust	073
Owen Carter	001
Pact Supporting People	095
Palmerston North Community Services Council	125
Pat Harrison	019
Peter Matthewson	025
Pharmacy Guild of New Zealand	011
Platform Charitable Trust	045
Presbyterian Support New Zealand	076
Problem Gambling Foundation	091

Public Health Association of New Zealand	122
Relationships Aotearoa	056
Restorative Justice Aotearoa	028
Richard Wood	018
Salvation Army	104
Sandra Grey and Charles Sedgwick	068
Social Sector Innovation (WBOP) Trust	081
Social Sector Trial Leads	126
Social Service Providers Aotearoa	129
South Waikato Social Services Collective	007
Southland Interagency Forum	029
Space NZ Trust	063
Spectrum Care Trust Board	090
Stand Children's Services Tū Māia Whānau	127
START	121
Steve Thomas	087
Sue Johnston	003
Superu	082
Supporting Families in Mental Illness NZ	049
Tangata o le Moana Network	093
Tauranga Budget Advisory Service	057
Te Roopu Waiora	097
Te Rūnaka o Ōtākou	110
The Human Rights Commission	101
The Impact Collective	130
The Māori Reference Group for Action on Violence within Families	120
The Methodist Mission	004
The Raglan House	024
UNICEF NZ	036
Victory Community Health	005
Volunteering New Zealand	086
Waikato Community Response Forum	079
Waimakariri District Council	075
WAVES Trust and Community Waitakere	083
Wellbeing North Canterbury Community Trust	112
Wellington City Council	043
Wesley Community Action	006
Whakaata Tohu Tohu/Mirror Services	023
Wise Group	041
Workbridge	102
Youth Horizons	067

Engagement meetings

INDIVIDUAL OR ORGANISATION

Accident Compensation Corporation
Age Concern New Zealand
Alliance Health Plus Trust

ANGOA (Association of Non-Government Organisations Aotearoa)
ASB Community Trust
Auckland City Mission
Barnardos
Birthright New Zealand
Canterbury District Health Board
Capital and Coast District Health Board
Careerforce
CCS Disability Action Upper South Region
Children's Action Plan
Citizens Advice Bureau
Compass Health
Department of Internal Affairs
Dr Jenny Keightley
Ferndale School
He Oranga Pounamu
He Puna Marama Trust
Healthy Families New Zealand
Home and Community Health Association
Horowhenua Children's Action Team
Horowhenua District Council
IHC New Zealand
Women's Refuge
IPANZ (Institute of Public Administration of New Zealand)
James Mansell
Jane Allison
John Baker, Ernst & Young
LifeLinks
Make It Happen Te Hiku Taskforce
Manawanui
Maxim Institute
Ministry of Business, Innovation and Employment
Ministry of Education
Ministry of Health
Ministry of Justice
Ministry of Social Development
National Beneficiaries Advocacy Group
New Zealand Aged Care Association
New Zealand Council of Christian Social Services
New Zealand Council of Trade Unions
New Zealand Data Futures Forum – John Whitehead, Evelyn Wareham
New Zealand Educational Institute
New Zealand Medical Association
New Zealand Police
New Zealand Public Service Association
New Zealand Treasury
Ngāpuhi Iwi Social Services
Office of the Children's Commissioner
Pact Group

Pasifika Futures
Paula Rebstock
Peter Hughes
Philanthropy New Zealand
Platform Charitable Trust
Prof. Jackie Cumming, Victoria University of Wellington
Salvation Army
Shine
Sir Mason Durie
SkillWise
Social Sector Joint Venture – Social Sector Trials
Stand Children's Services Tū Māia Whānau
State Sector Reform Action Group
State Services Commission
Stepping into Employment
Strive Community Trust
Superu
Suzanne Snively
Te Aroha Noa Community Services
Te Hiku Iwi Development Trust
Te Kahui Atawhai O Te Motu Incorporated
Te Pou Matakana
Te Pu o Te Wheke Whānau Ora Collective
Te Puni Kōkiri
Te Pūtahitanga o Te Waipounamu
Te Rūnanga o Ngāti Awa
Te Tai Tokerau Whānau Ora Collective
Te Whare Ruruhau o Meri Trust
The Impact Collective
The Māori Reference Group for Action on Violence within Families
The Tindall Foundation
The Todd Foundation
TOAH-NNEST
Tom Love, Sapere Research Group
Webb Henderson
Wesley Community Action
West Coast District Health Board
Whānau Mārama-Parenting
Wise Group
Youth Horizons

AUSTRALIA
Gary Sturgess
Australian Productivity Commission
Competition Policy Review Panel
Competition Policy Review Secretariat
Department of Employment
Department of Premier and Cabinet – New South Wales
Department of Social Services

Mission Australia
National Disability Insurance Agency
National Disability Services
National Employment Services Association
The Treasury – New South Wales

Conferences

INDIVIDUAL OR ORGANISATION

Aotearoa New Zealand Evaluation Association Conference 2014
Australia New Zealand Third Sector Research – Resilience, Change and the Third Sector
Collective Impact 2014
Community is the Answer
Cooperative Research Conference 2014
Rotary Forum: supporting NGOs to survive and thrive
Social Justice In Communities
Social Services Providers Aotearoa Conference 2014

Appendices B-F Additional material on the Commission's website

Appendices B to F are available from www.productivity.govt.nz/inquiry-content/social-services

Appendix	Title	Contents
B	Employment services	Case study of New Zealand and Australian systems for delivering employment services. The systems differ: in New Zealand a government in-house provider delivers them; the Australian Government out-sources them using a managed market. New Zealand uses data and analytics in a sophisticated way to improve service effectiveness.
C	Whānau Ora	Case study of Whānau Ora as a relatively new approach to the commissioning and delivery of services, particularly to Māori and Pasifika families. Of interest is the emphasis on families determining their own goals and the means to achieve them, assisted by "navigators". Another feature is the use of non-government commissioning agencies.
D	Services for people with disabilities	Case study of the ways that the government commissions and delivers services for people with disabilities. The study examines the Enabling Good Lives trial and the Ministry of Health's Individualised Funding initiative as examples of client-directed budgets.
E	Home-based support of older people	Case study of services and support for home-based care of the aged, how well they work, the issue of service integration, and the lessons that can be drawn (eg, how home-based services can reduce the need for hospital admissions and residential care).
F	The economics of social services	Reviews the microeconomics literature and picks out those parts that throw light on the economics of social services. The parts include contracting under uncertainty and how different types of incentives affect service performance. While drawing on various perspectives and frameworks, the inquiry aims to be grounded in sound microeconomics.

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