



# More effective social services



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Issues paper – October 2014

### **The New Zealand Productivity Commission - Te Kōmihana Whai Hua o Aotearoa<sup>1</sup>**

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<sup>1</sup> The Commission that pursues abundance for New Zealand.

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### Box 1 Te Reo Māori used in this issues paper

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

- *hui* – literally a gathering or meeting. As used in this issues paper, hui refers to a community meeting conducted according to *tikanga Māori* (Māori protocol).
- *iwi* – often translated as “tribe”. Iwi are a collection of *hapū* (clan) that are composed of *whānau* (defined below). The link between the three groupings is genealogical.
- *koha* – gift or donation.
- *kōhanga reo* – literally “language nests” – are pre-school Māori culture and language immersion programmes.
- *kura kaupapa Māori* – Māori-medium schools.
- *rangatiratanga* is 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”.
- *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.
- *wānanga* – publicly owned tertiary institutions that provide education in a Māori cultural context.
- *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 (see Box 4). 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.

# The issues paper

This issues paper 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 paper contains many specific questions to which responses are invited. These questions are not intended to limit comment. Participants should choose which (if any) questions are relevant to them. 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
Issues paper submissions due:	2 December 2014
Release of draft report:	Early March 2015
Final report to Government:	30 June 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. There will be an opportunity to make further submissions in response to the draft report.

## 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](http://www.productivity.govt.nz) or emailed to [info@productivity.govt.nz](mailto: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 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. Please telephone or send an email, or get in touch to arrange a meeting with inquiry staff.

# 1 Why this inquiry is important

Social services assist New Zealanders to live healthy, safe and fulfilling lives.<sup>2</sup> They are intended to provide access to health services and education opportunities, and to protect and support the most vulnerable. The quality of these services and their accessibility to those in need are crucial to the ongoing wellbeing of New Zealanders.

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 effect) 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.

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 participants in the social services system have different, and sometimes competing, demands and aspirations. As an initial step, it is worth quickly summarising what a well-functioning social services system might look like from the perspective of different participants. Subsequent chapters expand on these themes.

## New Zealanders

New Zealand individuals and their families have multiple stakes in the social services system.<sup>3</sup> As taxpayers, they want the system to deliver value from the tens of billions of dollars that government spends each year.

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<sup>2</sup> *Social services* are defined in Box 2.

<sup>3</sup> In the context of this inquiry, the Commission will use *New Zealanders* to mean people living in New Zealand, and to the extent relevant, New Zealand citizens living elsewhere.

They want social services to be available to meet their current or future need. 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.<sup>4</sup>

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.

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<sup>4</sup> This issues paper adopts the term *clients* to refer to the users of a social service.

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

Agencies want to understand what types of interventions are effective, and which 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<sup>5</sup>. 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 the reform or exit of poor performers.

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

## The government

The government is the collective agent of all New Zealanders, 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 higher degree of inter-agency cooperation.

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

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<sup>5</sup> *Commissioning and purchasing* are defined in Box 2.

## The importance of this inquiry

This inquiry has the potential to move the current system towards having these features, to the benefit of current clients, social service providers, commissioning agencies, the government and all New Zealanders.

## 2 What the Commission has been asked to do

### The inquiry terms of reference

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 terms of reference instruct the Commission to focus on potential improvements in the ways government agencies commission and purchase social services (see Box 2 for definitions). The inquiry aims to help agencies recognise how commissioning and purchasing influence the quality and effectiveness of social services, and suggest measures they could take to promote better outcomes.

#### Box 2 Definitions of terms used in the inquiry terms of reference

The Commission proposes 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, self-sufficient and fulfilling lives. This inquiry is primarily concerned with social services provided, funded or otherwise supported by government.

**Commissioning:** The process government agencies go through to assess alternative approaches to providing social services. It aims to identify the most efficient and effective ways to deliver social services. The commissioning process includes examining the specific needs of groups of people and analysing different ways to supply services that meet their needs (which can include the government supplying services directly).

**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 by either a government agency or another organisation (eg, a philanthropic trust). While the provision and purchase of social services meets the economic definition of a market, 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 to fulfil government contracts for social services.

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

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

The inquiry will examine (among other things):

- The strengths and weakness of current approaches to commissioning and purchasing social services.
- The lessons learnt from recent initiatives and new approaches, both in New Zealand and overseas.
- How to combine the expertise of public, not-for-profit and private sectors to tackle difficult social problems in new and innovative ways.
- How to improve coordination within and between government agencies and service providers.
- How government actions influence the shape and long-term sustainability of the market for social services.
- How agencies can build and maintain capability to support better outcomes from social services.

Appendix A contains the full terms of reference.

## What this inquiry will cover

The inquiry will investigate the arrangements used by government agencies (both Crown entities and government departments) to deliver social services via contracts with non-government providers. This will include examining how agencies choose between contracting

and government provision of a service, and the institutions and contracting models that promote good outcomes for individuals, communities and the population as a whole.

*Social services* is a somewhat ambiguous term. Indeed, nearly everything that the government does could be (at some level) interpreted as a social service. The Commission's proposed definition is in Box 2.

Society generally expects the government to play a role in the supply of social services – through direct provision by government agencies, through financial support of non-government providers, or through direct support of recipients. The focus of this inquiry is on improving individual and community wellbeing through the provision of social care, health care, education and training, employment services and community services. This includes social services targeted to those whose health, age, socioeconomic or other circumstances means that they have high needs.<sup>6</sup>

More broadly, social services could be interpreted to include other 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.

The inquiry will examine innovative approaches to commissioning and purchasing such as:

- outcome-based contracts (Box 3);
- results-based contracts;
- the use of information and communications technology; and
- the devolution of decisions around the commissioning and purchasing of services.

A significant task for the inquiry will be to identify where the application of these (and other) approaches is likely to result in the greatest improvements.

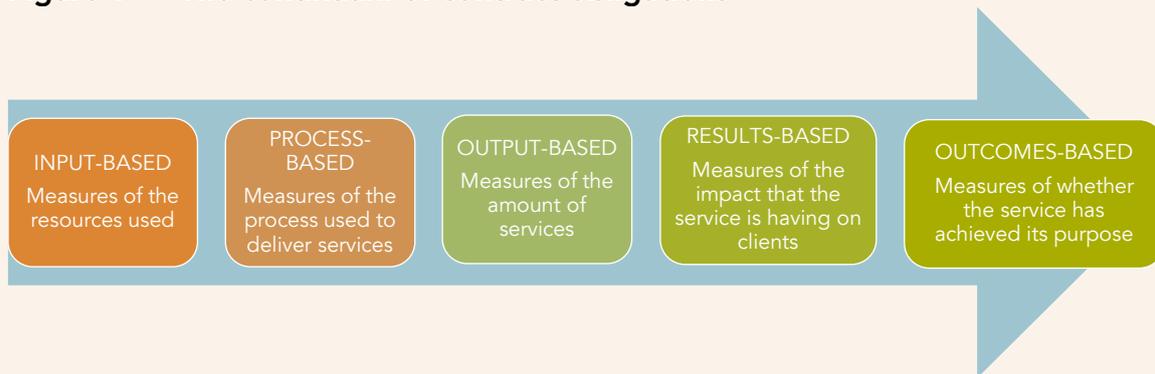
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<sup>6</sup> The terms of reference imply a focus on these kinds of services through reference to Better Public Services result areas and its use of examples such as Whānau Ora and Social Sector Trials.

### Box 3 Specifying contracts for providing social services

Deciding how to specify the obligations of providers is a crucial decision for commissioning agencies. Typically, obligations are specified in one of several ways (Figure 1). Moving from left to right across the figure, obligations match more closely to desired objectives, but are typically more difficult to measure.

**Figure 1 The continuum of contract 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 government expects the provider to have (eg, the percentage of trainees that were able to find work).
- *Outcome-based obligations* specify the objectives the government expects the provider to deliver (eg, a reduction in youth unemployment).

Chapter 5 considers the issues associated with selecting between these forms of specification.

## What this inquiry will not cover

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.

## Brief context of the inquiry

Social services address a wide range of human issues and needs. These may not have a single cause that can be “fixed” by government; rather they require a variety of approaches, often over an extended period, and sometimes in a context where the recipient is hostile to the service they are receiving.

Some services are relatively transactional in nature; others are built on deep trust between the service provider and the client. Often, the mix of services that works for one client is very different to the mix required by another. Numerous factors drive these differences, including age, cultural heritage, geography, and the nature of the relationship between the client and those around them. The need for services can also change through time in line with personal, family or community circumstances.

The system for delivering social services is equally complicated. It involves a network of institutions and organisations delivering a wide spectrum of activities – from social marketing campaigns, to employment services, to court-ordered rehabilitation services.

Providers are motivated by a sense of community spirit, commercial concerns, or both. There are providers that rely solely on government contracts or grants; others rely on a mix of government funding and donations from individuals or philanthropic trusts. The amount of public funding varies greatly. Small groups might receive grants of only a few thousand dollars, whereas large providers can be party to multi-million dollar contracts. Providers both compete and collaborate in providing services.

There are vast differences in how providers are staffed. Some providers are staffed almost exclusively by volunteers, while others are staffed by full-time professionals.

Against this backdrop, government faces the challenge of promoting a system of social service delivery that simultaneously:

- provides access to effective services for New Zealanders (particularly to those most vulnerable);
- promotes efficient uses of public funds;
- creates incentives for learning, innovation and ongoing improvements in service delivery; and
- strikes the right balance between central government support and individual, family and community responsibility.

Meeting these goals means giving providers the flexibility to tailor services to client needs, while maintaining the government's accountability to Parliament for the expenditure of public funds.

This is not an easy task. Politicians and public servants operate in a political environment in which failure receives more attention than success, and in which organisational culture, historical precedent and administrative process deeply influence the approaches taken to social service provision. Further, the value generated by public expenditure on social services is inherently difficult to measure, and central governments often lack the information needed to assess the trade-offs between alternative forms of service delivery at the local level.

## The Commission's approach to the inquiry

The Commission aims to make recommendations that are grounded and workable. The first step in the inquiry is for the Commission to develop a more detailed understanding of the context in which the government commissions and purchases social services, and the processes it uses to do so. This includes understanding:

- the key institutions and organisations that influence social service provision in New Zealand;
- how history has shaped the current social services landscape;
- the diversity of services and service providers;
- the interconnections among services and service providers; and
- the diversity of clients and client needs.

This information will assist the Commission to understand the role of alternative approaches to commissioning and purchasing, and alternative ways that contracts are specified (Box 3). At least five broad approaches will be examined:

- *Central government commissioning and delivery*: that is, government agencies identify population needs and the best services to meet these needs, and directly supply the services to clients.
- *Central government commissioning and delivery by a non-government provider*: that is, government agencies identify population needs and the best services to meet these needs, but contract out service delivery to non-government providers.
- *Central government devolves commissioning and contracting decisions*: that is, the government sets broad outcomes but devolves responsibility for commissioning and contracting to a body that is closer (eg, geographically or culturally) to clients.
- *Client-directed budgets*: that is, give clients (or their representatives) the means and freedom to choose the combination of approved services that best meets their needs.
- *Grants from central government to non-government providers*: that is, monetary payments to non-government service providers (often not-for-profit organisations), designed to support an organisation or activity rather than buy a service. *Conditional grants* are grants where the government attaches significant conditions on how the money is spent and what it is spent on. Common conditions include requirements for regular audits, investment in capability, or the commitment of other funders (OAG, 2008).

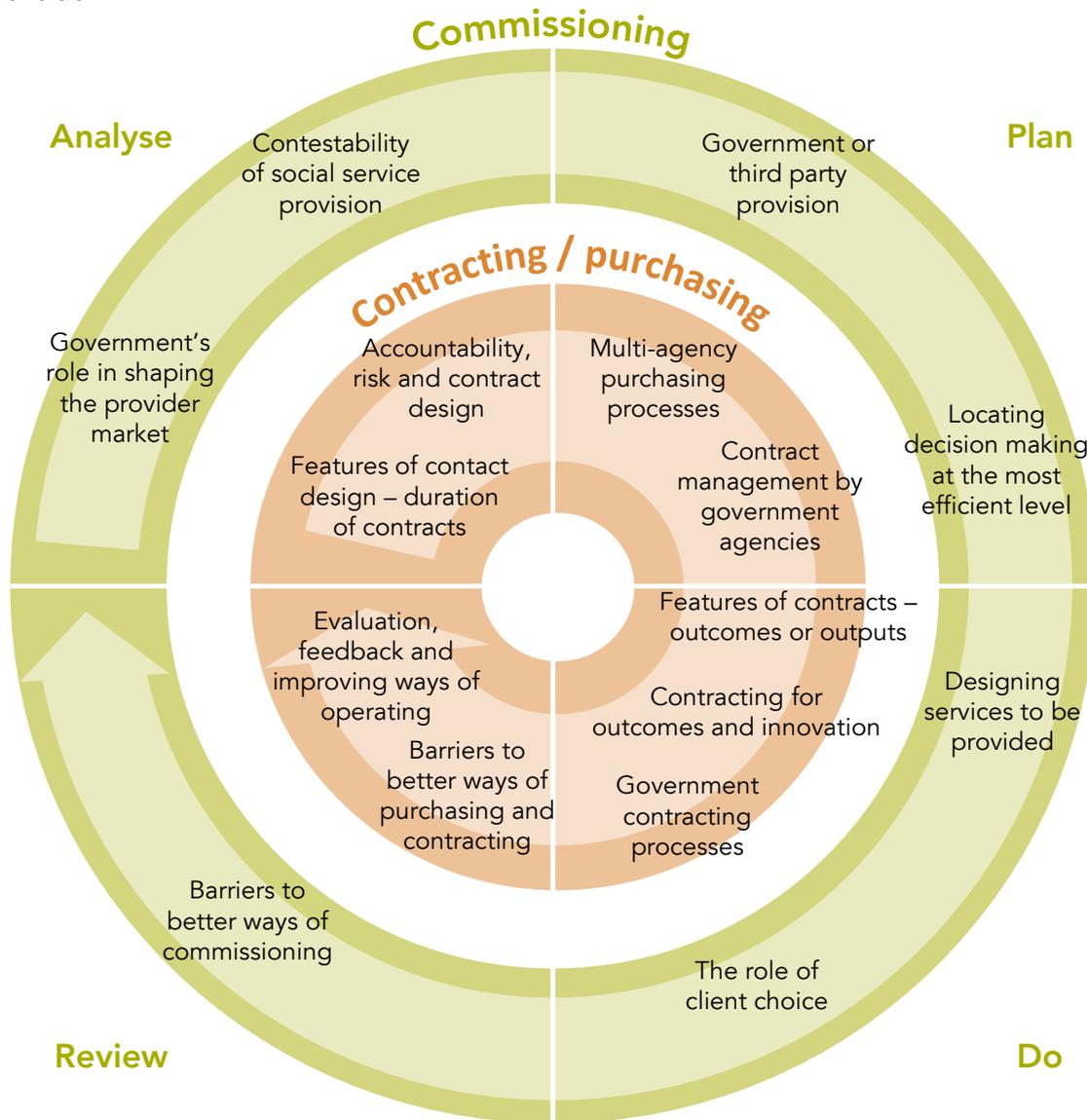
All five of these approaches are used in New Zealand and overseas. This raises the following questions.

- To which social services do government agencies apply these approaches?
- Are these approaches being effectively applied?
- Are agencies choosing approaches that are well matched to the circumstances?

The commissioning and contracting cycle illustrated in Figure 2 has elements that appear in different forms, sequences and start points in each of these approaches. The cycle provides a useful framework or checklist for analysing existing and new forms of commissioning and contracting.

**Figure 2 Commissioning and purchasing cycle**

Consideri



Source: Alder, 2010; Productivity Commission.

The inquiry will pay particular attention to recent innovations in commissioning and purchasing. This will involve:

- determining the improvements that the innovations aim to make;
- understanding on which issues the innovations have gained traction and on which they have not (and why);

- understanding the benefits, costs and risks associated with these innovations;
- determining how the costs and risks can be managed; and
- assessing where these innovations might be more broadly applicable.

The Commission will develop four case studies to assist with the inquiry (Chapter 6):

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

The case studies will inform but not limit the inquiry. The Commission also expects to learn much from investigating a wider range of services.

The Commission's approach strongly emphasises engagement with providers, government agencies, researchers, clients and client advocates. Accordingly, it welcomes information from participants on any aspect relevant to the inquiry's terms of reference.

# 3 The social services landscape

## What shapes New Zealand's social services landscape?

Modern states ... always ... had a mixed economy of welfare, in which the state, the voluntary sector, the family and the market have played different parts at different points of time. (Lewis, 1999, p. 10)

Who provides which social services and how they are provided has changed greatly over time and also varies across countries. History, population mix and geography have each influenced the development of New Zealand's social services.

### A changing role for the state

Britain in the 19<sup>th</sup> 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.

From the late 19<sup>th</sup> century, the state in developed countries has progressively taken on greater responsibility for funding and providing social services. New Zealand had scarcer philanthropic resources than Britain, and many settlers had few or no close family connections available for support (Easton, 2011). New Zealand became a leader in the state funding and provision of social services.

The welfare state in New Zealand grew in response to economic depression in the late 19<sup>th</sup> century, the privations of the First World War, and the Great Depression of the 1930s.<sup>7</sup> Growth in the welfare state was aided by the increased administrative capability of the state and a long-term rise in national income.

After the Second World War, women's role gradually changed. They increasingly spent more time in paid work and less in voluntary work. Not-for-profit organisations (NFPs) gradually became more and more dependent on government funding to deliver social services. Some large NFPs now receive almost all their funding from the state.

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<sup>7</sup> Broadly speaking, the term *welfare* includes both support payments and social services. This inquiry is concerned with the latter.

In the absence of large reserves of private wealth and a tradition of charitable giving, the state has become New Zealand's largest philanthropist ... (Kaplan, 2013, p. 16)

The full-employment economy of the 1950s and early 1960s gave way to a period of greater economic and social stress and brought a stronger focus on efficiency in public spending. Public sector reforms from the early 1990s introduced greater accountability for spending. Public sector agencies moved to more detailed contracts and audits for government-funded NFPs. As a result, many NFPs now have much less room than before to pursue their own vision and philosophy (Garlick, 2012).

More recently, government concerns about the effectiveness of services and their cost have led commissioning agencies to experiment with new approaches (Chapter 4).

## **The Treaty of Waitangi**

The Treaty of Waitangi (Te Tiriti o Waitangi) was 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.

Recognition of Māori as the indigenous people has come to play an important role in shaping social services in New Zealand. The relationship between Māori and the Crown has been transformed over the last 40 years, with a process to settle Treaty of Waitangi claims and the establishment of a wide range of social and economic institutions designed, governed and operated by Māori. These include kōhanga reo, kura kaupapa Māori, wānanga, iwi social services and, most recently, Whānau Ora (see Box 1 for explanations).

## **Changing population structure**

New Zealand's population is ageing and living longer with chronic health conditions, as is the case in most countries. This will increase demand from older New Zealanders for health services and make it more difficult to find resources for other social services (OAG, 2014a).

Social services in New Zealand must also provide for the needs of a large and increasingly diverse migrant population. Around 28% of the population in 2012 were not born in New Zealand, up from 22% in 2001. Over 6% of the population had been in the country for five years or less in 2012 (Statistics New Zealand, 2014). Migration brings with it the stresses of adjustment to an often very different culture. Assembling the resources to provide culturally appropriate services for diverse migrant groups can be challenging.

## **Geography**

Though a high proportion of New Zealanders live in cities, New Zealand's urban centres are small by world standards. Many small centres and rural areas lack the population to support highly specialised social services (such as in health) and may have only a few providers of less specialised social services. Population numbers may be too few to support diversity in social service provision.

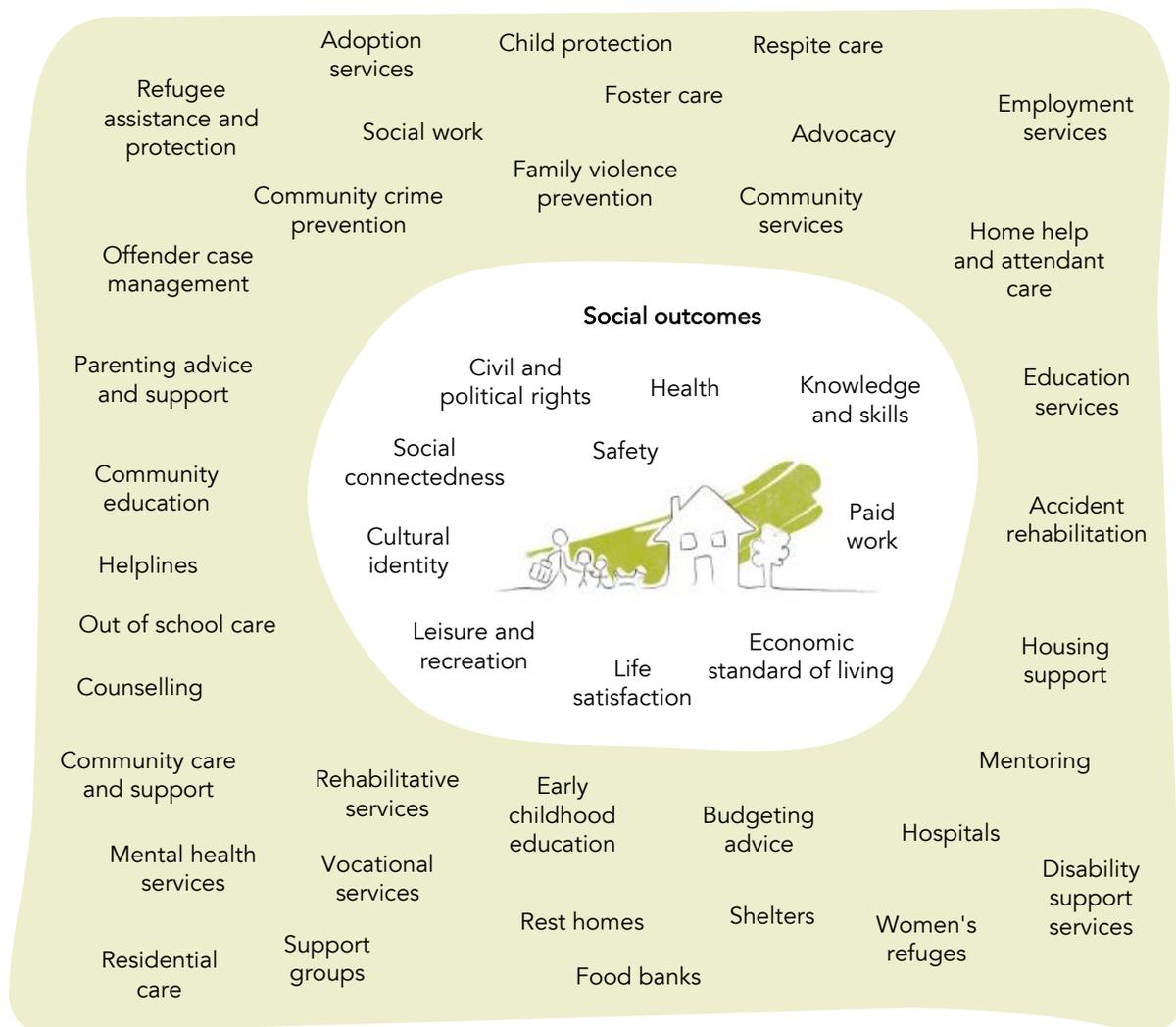
Q1

What are the most important social, economic and demographic trends that will change the social services landscape in New Zealand?

## What social services are provided in New Zealand?

There is a wide variety of social services in New Zealand (Figure 3).

**Figure 3 The diversity of services supporting social outcomes**



Services vary in many dimensions (Table 1).<sup>8</sup>

**Table 1** Some dimensions of social service diversity

Dimension	Range	Examples
Targeting	tightly targeted	rehabilitation services for prisoners
	universal	education and health
Source of funding	significant client co-payments	early childhood education, tertiary education, consultations with general practitioners
	entirely government funded	offender case management
Skill requirements	highly specialised and highly paid	medical specialists
	lower skilled and lower paid	aged-care workers
Type of provider	private for-profit	parts of aged care, early childhood education and prisoner rehabilitation
	not-for-profit	women's refuges
	government agencies	offender case management, some child protection services

### The need for social services falls unevenly across the population

Social services aim to improve social outcomes. Diversity in social service provision in part reflects diversity in the demand for social services and the fact that poor social outcomes vary in intensity and are distributed unevenly across the population.

Some social services are targeted to a small number of people with high needs. These people may be members of families that have had poor social outcomes across generations, including low educational achievement, early school leaving, poor health, imprisonment, unemployment, low earnings and high rates of welfare benefit receipt (Fergusson et al., 2003). The most cost-effective services for families with high concentrations of poor social outcomes are likely to be intensive, implemented early (in an individual's life), and of sufficiently long duration to make a difference (Heckman & Masterov, 2007).

Yet other social outcomes may be improved by targeting parts of the population through social marketing (eg, campaigns against drink-driving, smoking or domestic violence). Brief or

<sup>8</sup> Diversity of provision is further explored in Chapter 5.

intermittent interventions may be sufficient in other situations. For example, many children are truant occasionally from school or commit one or two minor crimes. If discovered, most will respond well to informal approaches from family, school and police (see, eg, McLaren, 2000; Ministry of Education, 2011).

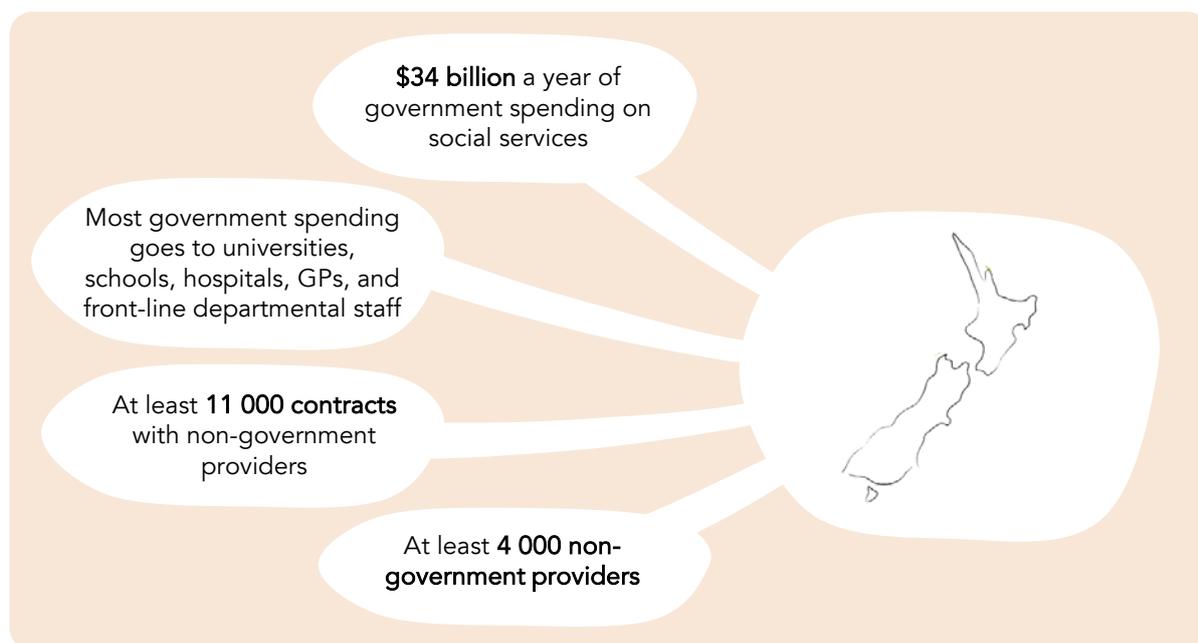
Most services engage users voluntarily, but some involve the use of the state's coercive powers.

The variety of services and the uneven distribution of needs results in a complex pattern of service provision. This suggests a need for diversity in purchasing and delivery approaches (Chapter 5).

## Who funds and who provides social services?

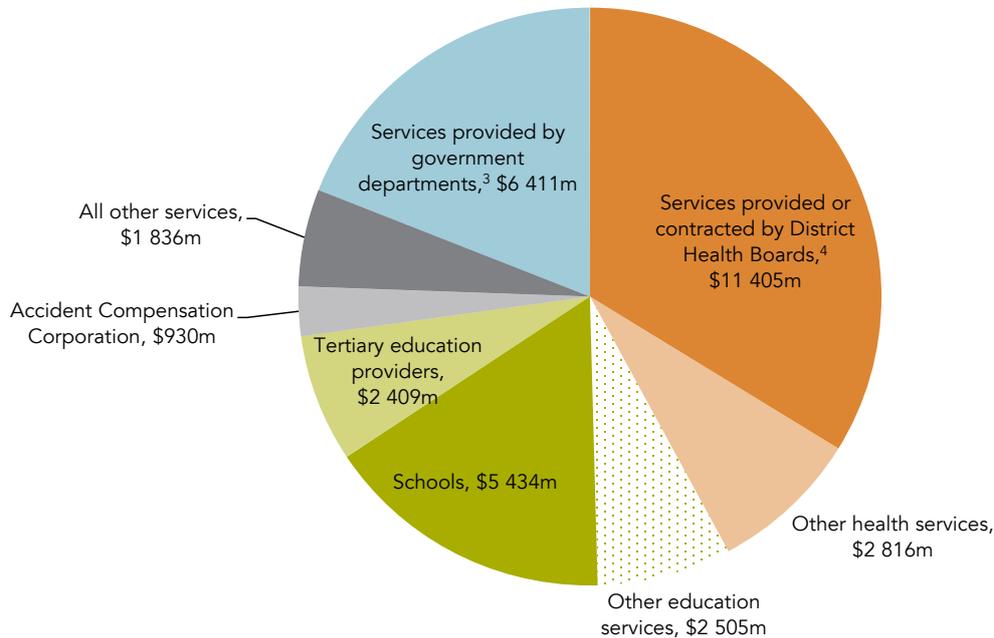
Figure 4 depicts four striking facts about the funding and provision of social services. The rest of this chapter fleshes them out as much as available data sources allow.

**Figure 4 Funding for social services**



*Source:* Appropriation estimates 2014/15; MartinJenkins.

The central government spends around \$34 billion a year on health, education and other social services (Figure 5).

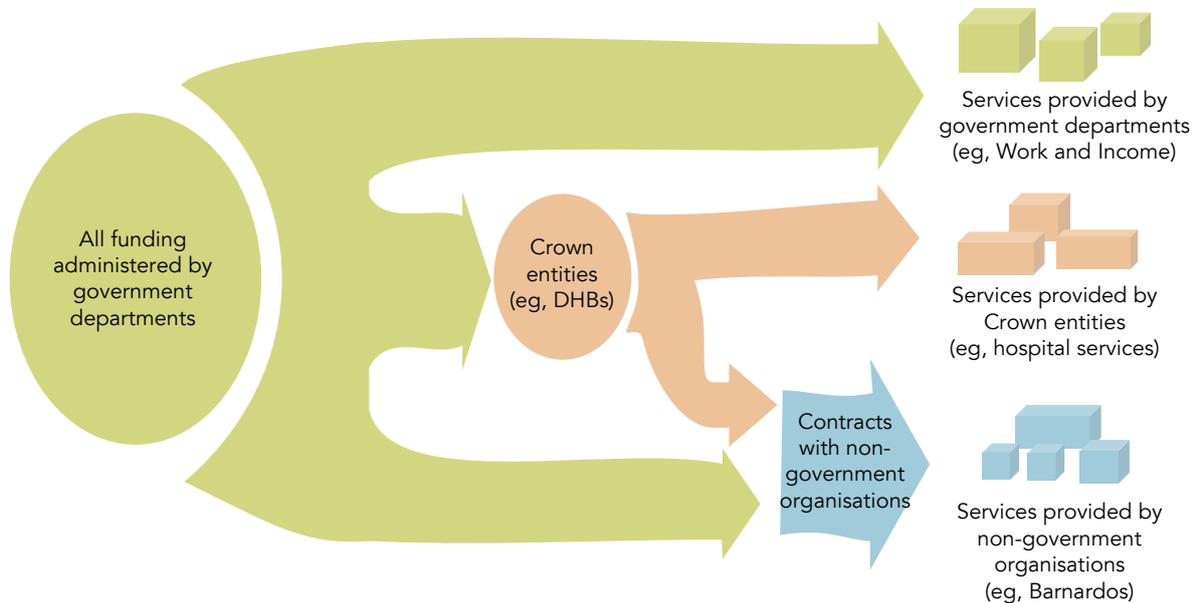
**Figure 5 Government social services spending, 2014/15**

Source: MartinJenkins; Appropriation estimates 2014/15; Productivity Commission.

Notes:

1. Total planned social services spending in 2014/15 is around \$34 billion.
2. Spending figures are budget appropriations for the financial year 2014/15. They cover health, Accident Compensation Corporation, education, tertiary education, social development, housing, labour, Māori affairs, justice, corrections and police.
3. The main services delivered directly by government departments are child protection, benefit administration and employment services, prisons, policing, and services to manage the government's portfolio of school property.
4. Over half of District Health Board spending is on directly provided hospital services.

Government departments and Crown entities, such as schools and District Health Boards (DHBs), directly provide some social services. Both government departments and Crown entities also contract non-government providers to deliver other social services (Figure 6).

**Figure 6 Flow of government social services spending**

### Government is a major provider of social services

Part of the government's expenditure on social services is for services provided directly by government agencies: Police; Corrections; Child, Youth and Family; Work and Income; and Special Education. An even larger part is for services provided directly by Crown entities, such as schools, tertiary education institutions and DHBs (Figure 5). Together, this makes the state the largest provider of social services.

The state sector is also the largest social services employer. There were just over 250 000 workers in social service occupations in 2006.<sup>9</sup> The state sector employed almost 165 000 workers in education and health alone in that year (SSC, 2014a).

### Local government funding and provision of social services

Local government in New Zealand accounts for only a small proportion of total spending on social services.<sup>10</sup> Some councils provide social services directly, particularly social housing. Councils sometimes coordinate local social services and make small-scale grants to community groups.<sup>11</sup> Council social services are predominantly in areas such as the arts, sport, recreation and the environment.

<sup>9</sup> Based on the 2006 Census.

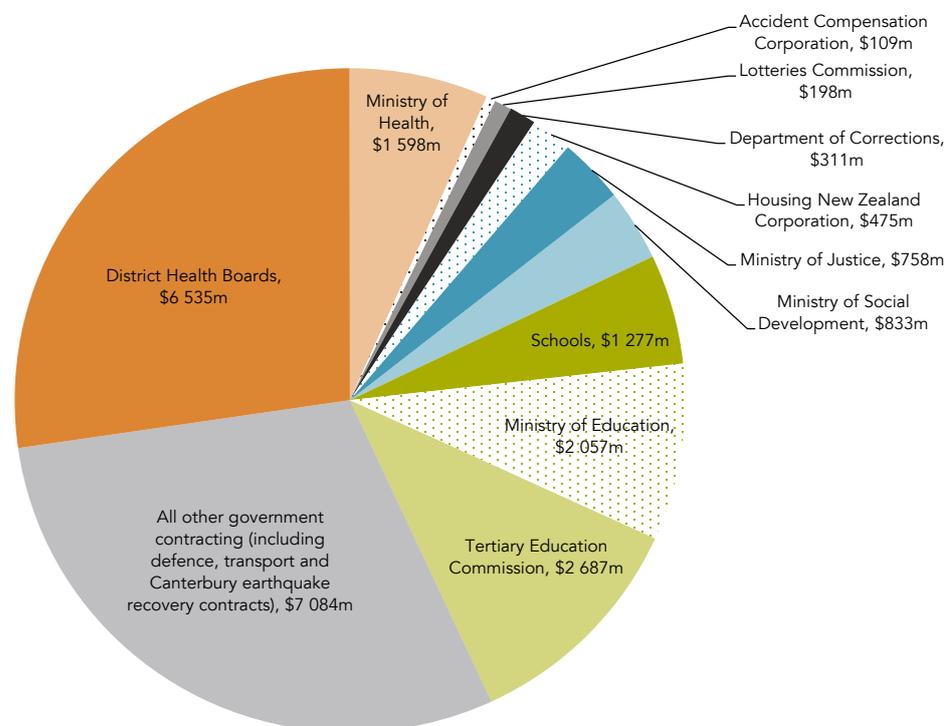
<sup>10</sup> As defined in Chapter 2.

<sup>11</sup> For example, the Hauraki District Council operates a contestable social fund (Hauraki District Council, 2014).

## Government purchases from non-government social service providers

Government departments and Crown entities such as DHBs and schools employ staff to provide services directly. They also buy goods and services to support these services and buy social services from non-government providers. Government organisations together spent a total of around \$24 billion on buying goods and services from non-government providers in 2011/12 (Figure 7). Yet only a small proportion of this spending is for social services from non-government providers.

**Figure 7 Total government agency spending on procurement from non-government providers, 2011/12**



Source: The Treasury, 2012.

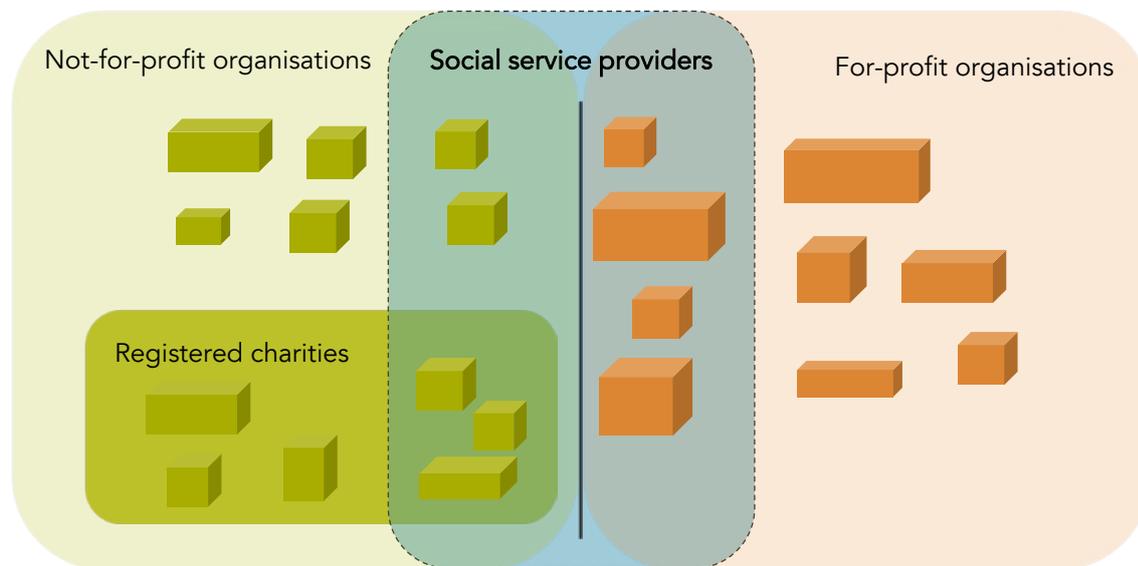
*Notes:*

1. Total spending in 2011/12 was around \$24 billion.
2. The organisations named are those that procured the services.

The Commission has found no consolidated data on government purchases of social services from non-government providers. There are at least 11 000 contracts between the central government and non-government providers of social services. These contracts are with over

4 000 different providers.<sup>12</sup> These providers are a mix of for-profit and not-for-profit organisations. Many but not all NFP social service providers are charities (Figure 8).<sup>13</sup>

**Figure 8 Charities, not-for-profit and for-profit social service providers**



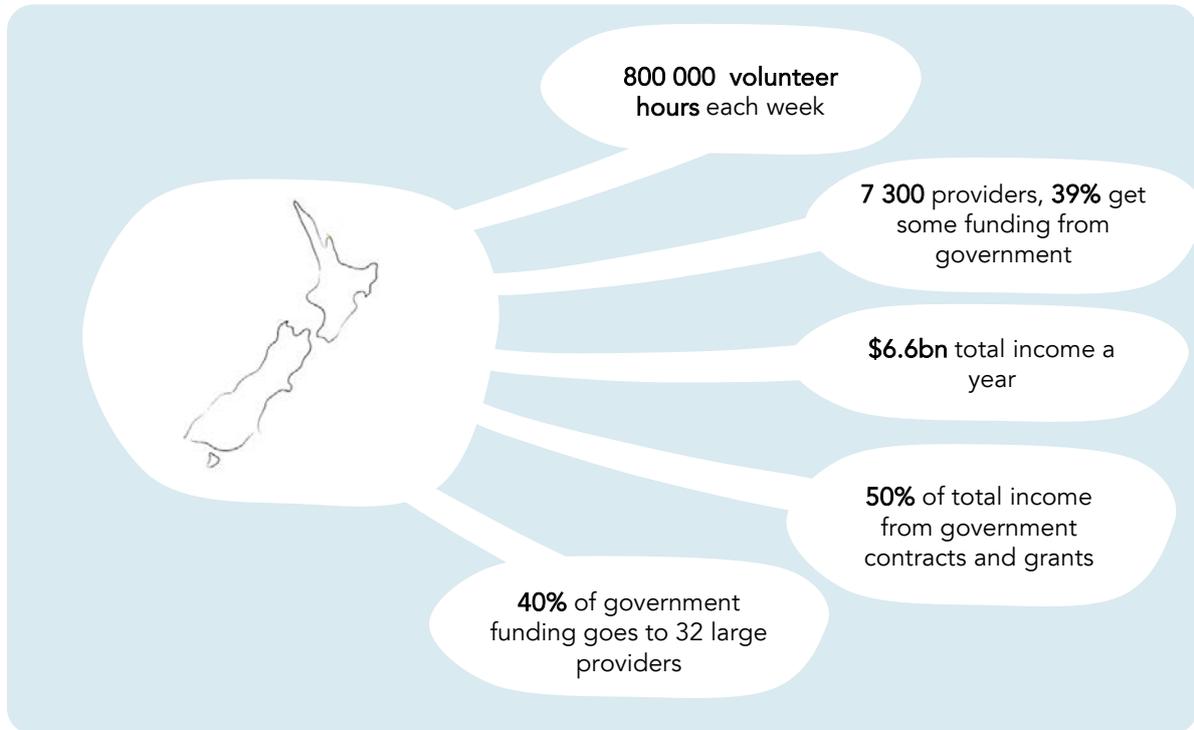
In the absence of consolidated data, the Commission has used the charities register as a second-best source on government purchases of social services from NFPs. 2013 data from the register is summarised in Figure 9.<sup>14</sup>

<sup>12</sup> Information supplied by MartinJenkins 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.

<sup>13</sup> A charity is a type of NFP formed for charitable purposes such as relief of poverty, the advancement of education or religion, or other matters beneficial to the community. In New Zealand, charities may be registered by the Charities Registration Board. Registered charities are eligible for exemptions from income and other taxes. They are required to submit an annual return and a copy of their accounts to the Department of Internal Affairs.

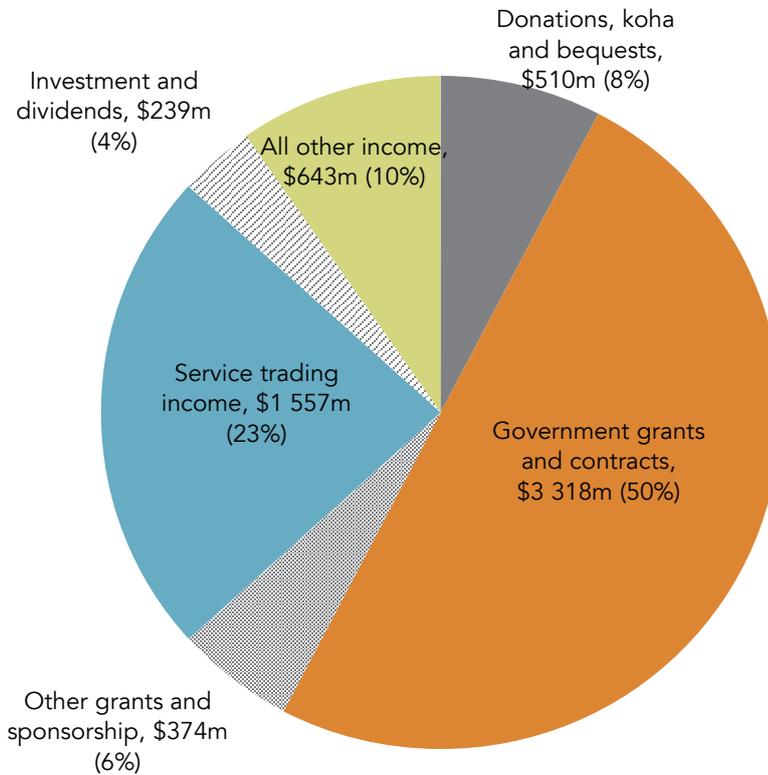
<sup>14</sup> There are open questions about the reliability of the data in the charities register. An analysis by Cordery and Patel (2011) found a high number of (sometimes minor) errors in a sample of 300 returns from small- and medium-sized charities filed in 2010. In particular, the figures in 72 returns did not match those in the charity's financial statements.

**Figure 9** Charity service providers, 2013



*Source:* Charities register.

The charities register shows government funding for charitable NFP social service providers of about \$3.3 billion in 2013 (Figure 10).

**Figure 10 Sources of income for charity service providers, 2013**

*Source:* Charities register; Productivity Commission.

*Notes:*

1. Data covers 7 300 charities that provide services (including but not limited to social services). Of these, 2 830 received more than \$100 in government funding in 2013.

The 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.

### **Funding from non-government sources for provision of social services**

The charities register shows that charities delivering social services get 50% of their income from sources other than government.<sup>15</sup> This is a mix of service trading income, donations, grants and other income (Figure 10).

<sup>15</sup> 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.

Many NFPs use volunteers to provide social services. Volunteers contributed 800 000 hours a week in 2013 to charities delivering social services (Figure 9). This represents an input of around \$600 million a year if costed at the minimum wage.

Q2

### How important are volunteers to the provision of social services?

#### Iwi

Iwi rūnanga, particularly post-Treaty-settlement iwi with a stable economic base, sometimes fund social services. Iwi may fund social services as part of distributing the benefits of the settlement (such as Ngāi Tahu's Whai Rawa savings scheme), or use part of settlement assets to leverage access to government funding for services (eg, Ngāti Whātua o Ōrākei's housing projects).

Yet the proceeds of a Treaty settlement are not government payments for social services. A settlement does not change the entitlements of settlement beneficiaries to, or their eligibility for, social services provided or funded by government. Settlements are redress for Article 2 breaches, and are about returning to an iwi an economic base, which it can grow and use to provide for the development of its people into the future.

The social development aspirations of iwi will often be in areas in which government also has a keen interest. This is one reason why social accords are a feature of some Treaty settlements (see Table 3).

Q3

### What role do iwi play in the funding and provision of social services and what further role could they play?

#### Philanthropy

Philanthropy is the act of giving financial resources to a cause that is intended to improve general human well-being, and where the giver expects no direct reciprocation or financial gain in return. (Philanthropy New Zealand, 2011, p. ii)

A BERL survey of philanthropic giving in New Zealand in 2011 found that donors gave a total \$1.98 billion to charitable and community causes. Of this, individuals gave 78% (\$1.55 billion), trusts and foundations gave 14% (\$282 million), and businesses gave 8% (\$150 million).<sup>16</sup> This was double the amount recorded in a 2006 survey, reflecting an improvement in information quality and an increase in personal giving following the removal of the tax rebate cap (Philanthropy New Zealand, 2011).

<sup>16</sup> This excludes trusts and other organisations (such as those receiving income from the proceeds of gambling) that are required by law to provide funding for charitable and community causes.

The survey found that donors gave around \$296 million for social services in 2011. This compares with \$510 million for donations, koha and bequests to NFP service providers recorded in the charities register for 2013 (Figure 10).<sup>17</sup>

### Social enterprises

Social enterprises provide some social services and support others. DIA in its 2012 survey of 421 social enterprises defined an organisation as a social enterprise if it has:

- a social, cultural, or environmental mission;
- a substantial portion of its income derived from trade; and
- the majority of its profit/surplus reinvested in the fulfilment of its mission.<sup>18</sup> (DIA, 2013)

There is no general agreement about how to apply this definition. For instance, DIA counts income from government contracts for social services as income derived from trade, and a majority of the organisations it surveyed were long-established charities. This definition thus overlaps substantially with the charitable organisations represented in Figure 10.

Kaplan (2013), on the other hand, focuses mostly on small start-ups. In her definition a social enterprise must “employ business models, skills and tools to develop products and services traded in the marketplace” (p. 4). Even so, she includes as examples of social enterprises the Salvation Army with its Family Stores, and Whale Watch Kaikoura, which was set up to “create employment when railway restructuring led to unemployment” (p. 14). In Kaplan’s judgement, social enterprise in New Zealand “is in its infancy”, but “on the cusp of taking hold” (pp. v–vi).

Social enterprises thus lie somewhere on a spectrum between charities that receive contract income (usually from government) to carry out their mission; businesses that use the proceeds of commercial activity to fund social purposes; and businesses that operate commercially to achieve a social purpose.

There is no aggregate New Zealand data on the number and size of social enterprises or on their contribution to supporting social services. This is largely due to the definitional problems raised above.

**Q4**

**What contribution do social enterprises make to providing social services and improving social outcomes in New Zealand?**

<sup>17</sup> The Commission did not attempt to distinguish providers of social services from other service providers in the charities register.

<sup>18</sup> The survey was a non-representative electronic survey; 421 organisations provided usable responses.

### Socially responsible business

Kaplan (2013) identifies *socially responsible business* as businesses that have a main aim of maximising profits for shareholders, but nevertheless pursue social objectives or assist others to do so. These businesses may provide services in kind. For instance, Chubb works with the charitable trust Shine to put locks and alarms into homes of women who are victims of domestic violence, so that the women and their children feel safer in their homes.

Q5

**What are the opportunities for, or barriers to, social-services partnerships between private business, not-for-profit social service providers and government?**

### Private investment

Private investment is another source of funding for social services. In commissioning models such as social bonds, private investors hope to get a return on their investment in return for accepting some of the risks in providing innovative social services (Table 3; Table 4). While the ultimate funder is the government, the private investor supplies working capital to fund the service until the contracted-for results are achieved. If the results are not achieved, the costs remain with the investor. Philanthropic organisations may also find social bonds and similar arrangements (such as loans) an attractive way to make their resources go further.

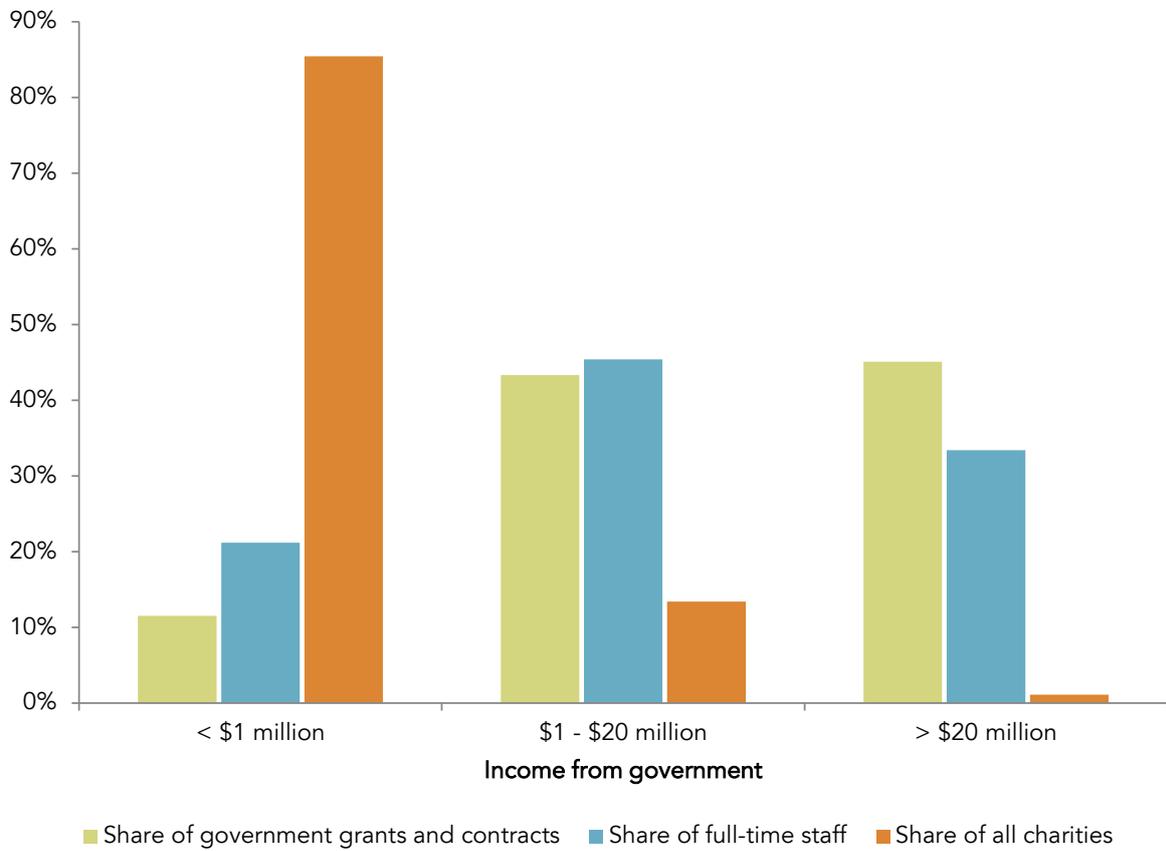
Q6

**What scope is there for increased private investment to fund social services? What approaches would encourage more private investment?**

### Non-government providers of social services

No department currently holds a complete record of government contracts for social services with non-government providers. The charities register shows that 2 830 social service providers who are charities each received \$100 or more in government funding in 2013. The largest 32 charity providers each receive more than \$20 million in government funding, and together account for 40% of all funding and 33% of full-time staff (Figure 11).

**Figure 11 Charity service providers by government funding, 2013**



Source: Charities register.

Notes:

1. Data covers 2 830 charities providing services and receiving \$100 or more in government funding in 2013. These charities employ around 33 400 full-time and 40 500 part-time staff.

Table 2 lists the 12 largest NFP providers (by government funding). Most of these provide health services or services for people with disabilities. Many, but not all, of these large providers are moderately or highly financially dependent on government.

**Table 2 Major not-for-profit providers of social services, 2013**

Provider	Income from government (\$m) <sup>1</sup>	Income from government as % of total income <sup>2</sup>	Full-time paid employees	Main operations <sup>3</sup>
Order of St John (14) <sup>4</sup>	288.9	55%	3370	Health
Idea Services Limited (part of IHC Group) <sup>5</sup>	221.2	89%	1304	People with disabilities
Presbyterian Support Services (7)	113.5	60%	1487	Social services
Wise Group	62.8	95%	637	Health
Royal New Zealand Plunket Society	59.4	78%	327	Health
Access Homehealth Ltd <sup>6</sup>	57.6	98%	276	Health
The Salvation Army New Zealand Group	49.5	29%	1218	Religious activities
Spectrum Care Trust Board	44.2	93%	424	People with disabilities
Nurse Maude Association	41.5	78%	270	Health
Barnardos New Zealand Inc.	31.8	70%	227	Social services
Te Roopu Taurima o Manukau Trust	30.3	99%	411	People with disabilities
Richmond Services Ltd	30.2	98%	385	Health

Source: MartinJenkins; Charities register.

*Notes:*

1. Income from government includes grants and contract payments.
2. Total income is from all sources, including trading, donations and investment.
3. The sector nominated by the charity on its return.
4. Organisations whose branch organisations provide separate returns to Charities Services are grouped. The number of branches grouped is shown in parentheses.
5. Timata Hou Ltd, also part of the IHC Group, received a further \$14.3 million from government.
6. Owned by Rural Women NZ.

### **Iwi and other Māori providers**

Social services provided by iwi and other Māori organisations have expanded rapidly over the last 25 years, particularly in health, education and whānau-centred services. Most departments do not keep comprehensive information on Māori providers. The Commission understands that the Ministry of Social Development (MSD) contracts with almost 120 Māori providers, about half of whom have contracts worth less than \$100 000. There are around 160 providers under the Whānau Ora umbrella. Many of these are likely to be the same providers as those contracted by MSD.

**Q7**

**What capabilities and services are Māori providers better able to provide?**

### **Private for-profit providers**

Private for-profit providers have a significant role in the provision of social services in New Zealand. In particular, private businesses provide:

- aged care (eg, Ryman Healthcare);
- primary health care (eg, most general practitioners);
- early childhood education (eg, Kindercare);
- tertiary education (eg, many private training establishments); and
- have a minor role in other areas such as corrections (eg, Serco) and schools (eg, Academic Colleges Group).

**Q8**

**Why are private for-profit providers significantly involved in providing some types of social services and not others?**

# 4 New approaches to commissioning and purchasing

## The importance of new approaches

In recent years, governments in New Zealand and other countries have introduced a variety of new approaches to the commissioning and purchasing of social services. Some of these approaches aim to reduce the administrative cost of existing government processes; others aim to achieve a better match between the supply of services and the needs of clients; yet others seek to provide stronger incentives for ongoing improvements in services delivery.

As societies demand more and better quality services, innovations in the way governments commission and purchase services become more important. New and better ways of commissioning and purchasing might mean that less time and money will be spent on low-value activities such as filling in forms, freeing up resources for high-value activities such as delivering services to clients. Further, innovations in the way the government operates can create the right conditions and incentives for innovations in the way providers operate. Provider-level innovation can improve service quality or provide access to services for more people.

## Developments in New Zealand

Since the early 2000s, governments have sought greater clarity around the outcomes achieved by the public sector. Initiatives such as Better Public Services (SSC, 2014b) and the Welfare Investment Approach (MSD, 2014a) are recent examples of attempts to deliver government services – including social services – more efficiently and with greater focus on outcomes. Recent changes to the State Sector Act 1988, Public Finance Act 1989 and the Crown Entities Act 2004 give public-sector commissioning agencies more flexibility and stronger incentives to pool resources, work together and innovate in producing or purchasing services, including social services (New Zealand Government, 2012).

Government agencies have responded by initiating programmes to allocate resources more efficiently, reduce the administrative costs of contracting, and provide a platform for innovation (both within government agencies and non-government providers).

Specific programmes include Whānau Ora (Box 4), health alliances, individualised funding for disability support services, social bonds, social housing, partnership schools, and private

management of prisons and prisoner rehabilitation. Table 3 provides a brief description of these new approaches.

#### Box 4 **Whānau Ora**

Whānau Ora is a cross-government work programme implemented in 2010 by Te Puni Kōkiri (TPK), with the Ministry of Social Development (MSD) and the Ministry of Health. Under the programme, providers support whānau to become more self-managing and take more responsibility for their economic, cultural and social development. Whānau Ora navigators work with whānau to identify their needs, develop plans to address those needs, and broker access to the best mix of services from government agencies and non-government providers.

The initial focus was on fostering provider collectives, building their capability, and supporting them to develop and implement agreed action programmes for their localities. There are currently more than 160 Whānau Ora providers, in 33 collectives. MSD, working with District Health Boards in particular, led the development of integrated, high-trust contracts for the provider collectives. Integrated contracts aim to bring together in one outcomes-focused document the contractual requirements of multiple funding agencies (MSD, 2014b). This approach requires government agencies to work more collaboratively and makes it easier for providers to work holistically with whānau.

The Minister for Whānau Ora announced the appointment of three non-government commissioning agencies early in 2014. Two of the agencies will commission services from providers in the North and South Islands, and the third has a Pasifika focus.<sup>19</sup> TPK contracted the agencies for three years, with an option to renew for a further two. A component of the contracts with commissioning agencies is an incentive payment for the achievement of agreed measures.

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<sup>19</sup> *Pasifika* – a collective term for people identifying with the diverse cultures originating from islands in the Pacific Ocean. Commonly used in New Zealand to refer to people who immigrated from these islands and their descendants.

**Table 3 Selected New Zealand initiatives**

Sector	Initiative
Health	<p><i>Health Alliances</i> – Networks of primary health service providers and District Health Boards that deliver integrated services. Initiatives include moving services from hospitals to the community by supporting self-care and community care. Health alliances can access funding pooled from multiple funding streams.</p> <p><i>Individualised funding for disability support services</i> – Individualised funding is a programme with client-directed budgets (Chapter 5). The Ministry of Health (MoH) funds home-based and community support services for people with disabilities who are able to manage a budget and direct how and what services are provided.</p> <p><i>Social Bonds</i> – MoH is leading work to establish a social-bond pilot in New Zealand. In a social bond an intermediary is the main contractor and brings together investors and social service providers to fund and provide the programme. The government contracts to pay for improved social outcomes. Payment depends on the outcomes achieved that can be attributed to the programme.</p>
Housing	<p><i>Social housing</i> is aimed at those who face multiple barriers in accessing and maintaining adequate housing. The Government has established the Social Housing Unit to purchase services from a diverse range of non-government community house providers. Income-related rent subsidies are paid directly to housing providers on behalf of clients. Work and Income, a part of the Ministry of Social Development (MSD), is now responsible for the assessment of housing needs and the allocation of houses to eligible clients. Commissioning is neutral between public and non-government providers (Minister of Housing, 2013).</p>
Education	<p><i>Partnership Schools Kura Hourua</i> provide education targeted to under-achieving students.</p> <p>Partnership Schools are fully funded schools outside the state system. They are accountable to the government for raising student achievement through a contract to deliver a range of specified school-level targets.</p>
Corrections	<p><i>Mount Eden Corrections Facility</i> – The Department of Corrections awarded a 10-year contract in 2011 to Serco (a multinational private provider of public services) to manage this government-owned prison and provide rehabilitation services. Payments are partly linked to performance on a range of within-prison and after-release outcomes.</p> <p>The Department of Corrections has also contracted out the construction and management of the <i>South Auckland Correctional Facility</i> to a business consortium, SecureFuture Wiri Limited, which includes Serco.</p>

Sector	Initiative
Cross-sector	<p><b><i>Social Sector Trials</i></b> – The Government has, since 2011, set up 16 Social Sector Trials of three or more years' duration in different communities. The trials are testing innovative ideas to improve the integration of local social, health and educational services to achieve better outcomes. The trials appoint a coordinator to support local social service planning and delivery toward a specific outcome. Half of the coordinators are employed by MSD, the rest by non-government providers.</p> <p><b><i>Social accords</i></b> – Under the 2013 Social Development Accord between the Crown and the iwi of Te Hiku o te Ika a Maui, government agencies work with Te Hiku iwi on solutions for their whānau and community in the Far North.<sup>20</sup> The accord is supported by a secretariat, which includes iwi representatives and senior government officials, and is co-chaired by the MSD Northland Commissioner and the chief executive of one of the participating iwi rūnanga.</p> <p><b><i>Make it Happen Te Hiku</i></b> – A separate but complementary process to the Social Development Accord. It is a community visioning project that sought input from the broader Te Hiku community into what its people saw as the priorities for social services in the Far North. So far, this has resulted in a report to the Minister of Social Development on what should be the outcome areas and performance indicators for improving social services in Te Hiku.</p>

The Commission is interested in gaining a greater understanding of these programmes – particularly from the perspective of service providers and clients. This includes understanding how successful these programmes have been in delivering better outcomes and the drivers of, or barriers to, success.

Q9

**How successful have recent government initiatives been in improving commissioning and purchasing of social services? What have been the drivers of success, or the barriers to success, of these initiatives?**

Q10

**Are there other innovations in commissioning and contracting in New Zealand that the Commission should explore? What lessons could the Commission draw from these innovations?**

<sup>20</sup> *Te Hiku o te Ika a Maui* – a sub-region of the Far North District in Northland.

## International developments

New Zealand can also learn from innovative international approaches to the purchase and provision of social services. Recent international developments aim to get better results for given resources by:

- reducing duplication;
- improving integration;
- focusing on prevention rather than crisis management;
- making access to services simpler and more efficient;
- giving clients greater choice of service provider; and
- enhancing the incentive and ability to innovate by focusing on outcomes rather than processes (Table 4).

Information technology is aiding with all these improvements and through the monitoring and evaluation of programme performance.

**Table 4 Selected international initiatives**

Sector	Initiative
Health	<p>The Ontario disability support programme <i>Employment Supports</i> funds community-based service providers to help people with disabilities find work. Service providers receive payment based on their success in placing and retaining clients in jobs. Providers who make more job placements than their targets receive additional payments.</p> <p>The new Australian <i>National Disability Insurance Scheme</i> will give people with disability (or their guardians) a choice of providers, and the ability to appoint a disability support organisation as a service broker, or to help switch providers. Recipients can cash out their support-services entitlements to use the funds to assemble their own specific supports.</p>
Corrections	<p><i>Peterborough Social Impact Bond</i> – Social Finance Ltd was appointed in 2010 to be the intermediary between government, service providers and investors to set up a pilot aimed to reduce re-offending among three cohorts of short-stay male prisoners leaving Peterborough prison in the United Kingdom. Investors were to receive a share of the long-term savings from reducing re-offending. The arrangement gave greater flexibility and stronger incentives for providers to find innovative ways to address prisoner issues, both in prison and after release. Early results showed that the pilot led to a significant reduction in re-offending, compared to a national sample of comparable prisoners. The social bond elements of the programme were recently dropped, following nation-wide policy changes in the delivery of probation services.</p>
Cross-sector	<p>The UK government is promoting the development of <i>public sector mutuals</i>, in which employees take over the management of public services. For example, NAViGO was spun out of the National Health Service (NHS) in Lincolnshire in April 2011. It provides mental health and care services to around 5 000 people for the NHS, general practitioners and local authorities. It has been successful in developing innovative employment services for people with mental health problems while at the same time reducing management and infrastructure costs and staff absenteeism. Staff, clients and client carers can become members of NAViGO and have a say in how the organisation is run.</p>

Source: Ontario Ministry of Community and Social Services, 2013; Australian National Disability Insurance Agency, 2014; APC, 2011; Disley et al., 2011; Social Finance, 2014; Tomkinson, 2013.

There is also a trend towards devolution of decision making around the commissioning and purchasing of services, to facilitate better tailoring of programmes to local needs and allow more integrated use of resources from multiple funding streams.

**Q11**

**What other international examples of innovative approaches to social service commissioning and provision are worth examining to draw lessons for New Zealand?**

**Q12**

**What are the barriers to learning from international experience in social services commissioning? What are the barriers and risks in applying the lessons in New Zealand?**

## 5 Issues for the inquiry

The Commission has identified some important themes and issues for the inquiry through preliminary meetings and a review of available literature. This chapter highlights many of these issues and poses questions which the Commission is seeking help in answering. Inquiry participants are encouraged to respond to those questions relevant to their experience and interests.

The Commission is unlikely to be aware of all important issues at this stage of the inquiry. Participants are encouraged to suggest other issues they believe are important.

This chapter groups issues according to the party most central to each issue. As some issues involve relationships between parties, the grouping is not always clear-cut. Nevertheless, it provides a useful structure.

### Current clients of social services

Clients want information about available services, freedom to match services to their needs, and reduced bureaucracy in dealing with service providers. Above all else, they want the services they receive to be effective in improving their lives.

Ideally, they want more integrated services, increased control over who provides service and what is provided, and for services to be appropriate to their culture and situation.

### Service integration

*Service integration* means different things to different people. The World Health Organisation (WHO) noted six common uses of the term “integrated” in the context of health services (Box 5), and proposed a working definition of “integrated health services” (WHO, 2008).

For this inquiry, the Commission proposes using a modified version of the WHO working definition of *service integration*: *The management and delivery of social services so that clients receive the right mix of preventative and curative services according to their needs over time. Service delivery is coordinated within the social services system to make it timely and convenient for clients.*

### Box 5 Six uses of the term “integrated”

The World Health Organisation identifies six main uses of the term “integrated” in the context of health services, and notes that there are many “nuances within these”.

1. Integrated is often used to refer to a *package of preventive and curative health interventions* for a particular population group (eg, early childhood health). The aim of this form of integration is for the target group to receive all appropriate services, ideally in a convenient manner (eg, one-stop shops).
2. Integrated health service can refer to the delivery of *multiple services at one location* and under one overall manager. This form of integration aims to provide clients with coordinated care, rather than having to make separate visits for separate services. Examples are multi-purpose clinics and multi-purpose outreach visits.
3. Integrated services can mean *continuity of care over time*. Examples are life-long care for chronic conditions and a continuum of care from antenatal through postnatal and early childcare.
4. Integration can refer to the *vertical integration of different levels of service*. Under vertical integration a single manager oversees facilities operating at different levels (eg, hospitals, doctors’ surgeries and home-based services). The aim is to facilitate client movements up and down the levels of the system.
5. *Integrated policy-making and management* brings together decisions and support functions across different parts of the health sector (eg, integrating responsibility for the health status of a specific group into one department).
6. Integration can mean *working across sectors* (eg, education and health agencies working together to develop effective school health-promotion campaigns).

Source: WHO, 2008.

In practice, integration can be difficult. Challenges arise if rigidly-structured funding creates incentives that work against integration, or the relevant parties lack commitment or a collaborative culture.<sup>21</sup> A lack of clarity around the services and processes to be integrated can also hamper progress. Integration can vary in intensity from sharing information, integrating practice, integrating governance to integrating whole service delivery structures. Ham and

<sup>21</sup> Difficulty in obtaining commitment may arise, for example, when cooperation requires costly procedural or institutional changes that fall outside the scope or mandate of individual parties.

Walsh (2013) identified factors critical to successful integration of health services (Box 6). These are likely applicable to a wider range of social services.

### Box 6 **Factors critical to service integration**

The successful integration of health services requires:

- establishing relationships where power-sharing and shared leadership are possible;
- building a persuasive shared vision of what integration will achieve (whilst being realistic about the costs);
- sharing resources and information – being open to innovation in how services are commissioned and how resources (including staff) are deployed;
- integration at the practitioner level, not just at the management and governance levels;
- involving and empowering clients in making choices about how and which services they access; and
- having a coherent strategy for all of the above, with objectives that are measured and evaluated.

*Source:* Ham and Walsh, 2013.

New Zealand has a history of attempting to integrate health services. A current example is Health Alliances (Table 3). Integration is also being trialled across social service agencies. Trials include Strengthening Families, Whānau Ora (Box 4), the Social Sector Trials (Table 3) and the new Children's Teams.

**Q13**

**Where and when have attempts to integrate services been successful or unsuccessful? Why?**

Some service integration initiatives have been unsuccessful. Often a new initiative has superseded the old within a few years. This can confuse providers and make them doubt the medium- to long-term value of investing time and effort in responding to agency initiatives.

**Q14**

**What needs to happen for further attempts at service integration to be credible with providers?**

## Client choice and control

For some forms of social services there is movement away from centrally specified delivery arrangements, where providers and government officials decide what is best, towards giving people more choice and control (Table 4).<sup>22</sup> These are commonly known as *client-directed budget* (CDB) models and are perhaps the most far-reaching form of devolving decisions about social services.<sup>23</sup>

One rationale for CDB is that giving individuals the ability to exercise choice empowers them. Such empowerment can itself lift client wellbeing (Le Grand, 2007). For example, being able to exercise choice may be particularly important in aged care, where clients may have less control over other aspects of their daily lives. CDB approaches may also result in a mix of services better suited to the client's needs. They can also stimulate competition between providers, helping to foster innovation, lower costs and improve service quality.

**Q15**

**Which social services are best suited to client-directed budgets? What would be the benefit of client-directed budgets over existing models of service delivery? What steps would move the service in this direction?**

There will be instances where shifting from centrally directed to client-led provision is not appropriate or is less desirable. In some cases, the community accepts that clients of a service should not make specific choices. For example, a prisoner has little choice over the conditions of incarceration.

Some clients may have medical conditions or disabilities that limit their ability to make informed choices. Such services can be designed to allow choices to be made on their behalf by an informed representative trusted to act in their best interests.

**Q16**

**Which social services do not lend themselves to client-directed budgets? What risks do client-directed budgets create? How could these risks be managed?**

<sup>22</sup> For example, recent inquiries by the Australian Productivity Commission into the delivery of childcare services, aged-care services and disability support services illustrate growing recognition of the benefits of client-directed budget models.

<sup>23</sup> For the purpose of this inquiry the Commission has adopted the use of the term *client-directed budgets*. The term "client fund holder" is also used to describe such models. The Ministry of Health refers to its initiative as "enhanced individualised funding". The Ministry of Education's Ongoing Resourcing Scheme for children with special needs also has elements of individualised funding.

## Culturally appropriate services

To be most effective, the presentation and delivery of social services should be consistent with the social and cultural norms of the clients they target. For example, programmes that aim to influence behaviour need to be credible within the culture shared by at-risk individuals.

Different cultural groups have different concepts of wellbeing. An oft-cited example is the Māori concept of health that extends beyond addressing physical ailments to include mental, spiritual and whānau components of improving wellbeing.<sup>24</sup>

Culturally appropriate services can be important for effectiveness and uptake; including by Māori, Pasifika, refugees and migrants. Other groups within New Zealand, for example Deaf people, have particular service delivery needs.

The way contracts are specified can impede or enable culturally appropriate modes of delivery. Commissioning agencies need to consider how far to specify culturally appropriate protocols in the delivery of services. Protocols could cover, for example, whether to work with individuals or a whole family, meet face-to-face or more indirectly, and in someone's home or a clinical setting.

Q17

**What examples are there of contract specifications that make culturally appropriate delivery easy or more difficult?**

Effective services need to fit the cultures of their clients. They also need to manage possible conflicts between the rights of individuals and traditional cultural values. Boundaries between acceptable discipline and violence, attitudes towards women, and attitudes towards sexuality vary between cultures. This can make it harder for some individuals to access services, or make it harder for some services to be effective.

## Client-informed policy and service provision

Understanding the services clients want, and how they want to access them, is an important starting point for improving service provision. Box 7 provides examples where providers and agencies sought client feedback. Despite these examples, client participation in directly informing the design of services appears to be the exception rather than the rule.

<sup>24</sup> Described by Sir Mason Durie in his *whare tapa wha* model (MoH, 2014).

### Box 7 Examples of client feedback

These are some examples of direct feedback from individuals and families about their experience of social services.

- The Families Commission produced a snapshot of all social service providers in the Masterton area, how families knew about them, and on which providers families do and do not rely when they need help (Families Commission, 2010).
- The Children’s Commissioner has a Young People’s Advisory Group to gather information directly from young people on what it is like being young in Aotearoa (Office of the Children’s Commissioner, 2014).
- The Ministry of Youth Development runs a 5 000-member youth panel, which is used to consult on policy affecting young people (Ministry of Youth Development, 2014).
- Wellington Wesley Community Action collects real-time feedback from clients on service effectiveness. This provides a formal mechanism for clients to be involved in the choice of care approaches (Wesley Community Action Group, 2014).
- The Family 100 Research Project uses direct interviews with families to understand their lives and allow the Auckland City Mission to respond more effectively to their needs (Auckland City Mission, 2014).

Direct client feedback may be limited or difficult to access because clients are often vulnerable and therefore reluctant to comment on how well services work for them. In some cases client advocacy organisations provide an effective voice for clients.

Providers sometimes play a dual role of provider and client advocate. This can be effective where clients lack their own voice, providers have sufficient knowledge of client needs, and where there is a strong alignment between the interests of providers and those of the clients.

The Commission is interested in understanding:

- where more input from clients (as opposed to providers) would assist the effectiveness of social service programmes; and
- the approaches that could be used to obtain the views of clients and their families.

**Q18**

**How could the views of clients and their families be better included in the design and delivery of social services?**

## Social service providers

Social service providers want to provide effective services that improve their clients' lives. In order to achieve this, they seek sufficient, predictable and stable funding with limited bureaucracy. Some concerns of providers are summarised in Box 8.

### Box 8 Funding concerns of non-government providers

The Platform Trust's *Fair Funding* website provides a concise summary of the concerns of not-for-profit (NFP) service providers about current District Health Board (DHB) funding and contracting practices. Their concerns include:

- DHB contract payments are not increasing in line with provider costs;
- DHBs often fund NFP services at a lower rate than they fund their own services;
- prices DHBs pay for the same services vary wildly across the country;
- NFP providers are regularly required to re-tender for their services; and
- NFP providers are often audited multiple times a year by multiple government agencies to collect exactly the same information, which costs time, money and resources.

These or similar concerns are widely held amongst service providers.

*Source:* Platform Trust, 2014.

## Devolving decisions

There is growing recognition that, for many services, providers that are close to clients – or the clients themselves – are best placed to make decisions about the appropriate form and combination of services to meet client needs.

Numerous studies illustrate the difficulty that centrally driven systems have in meeting the diverse (and changing) needs of communities (Shaw & Rosen, 2013).

More generally, advocates of devolved decision making highlight community or individual empowerment as a way to achieve better outcomes – and indeed, as a desirable outcome in itself.

Yet there are potential weaknesses in local providers making local decisions. For example, capture by narrow political interests, wide variation in the capacity of decision makers, weak accountability (because the impact of failures is localised), and the drowning out of minority voices (Evans, Stoker & Nasir, 2013).

Arguably the most pressing concern is the tension between devolved decision making and the existing framework of public accountability, as discussed in the next subsection.

Delivery of services by small local units is typically more expensive and less efficient than delivery by larger units. Smaller units may not be large enough to employ specialist staff, potentially lowering service quality.

In addition, a system of fully devolved providers may not generate and communicate the information required for efficient resource allocation across New Zealand. In the absence of reliable information, resource allocation can become the outcome of political contest. This rewards effective advocacy over client need and programme effectiveness.

Devolved systems that do not effectively address these potential problems may perform no better, or indeed worse, than centralised alternatives.

There are trade-offs between centralised and devolved systems (NZPC, 2013). These trade-offs are context- and service-specific, and an understanding of them is crucial to the efficient allocation of resources and decision rights.

**Q19**

**Are there examples of service delivery decisions that are best made locally? Or centrally? What are the consequences of not making decisions at the appropriate level?**

## **The tension between accountability and flexibility**

Ministers and government agencies can be severely criticised when the performance of service providers fails to meet the standard expected by the public. This is understandable, particularly in cases where failures affect the most vulnerable.

*Performance risk* is the risk to a government agency that their contracted service provider fails to meet the conditions of the contract. The consequences of an agency's failure to manage performance risk can be severe, given the consequences for clients and the political consequences for ministers.

The need to manage performance risk heavily influences government contracts. Typically, agencies manage performance risk through 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 have negative consequences for service delivery (Spiller, 2008), such as:

- reducing the incentives and room for innovation;
- limiting the flexibility of providers to respond to changing needs of clients or changes in the environment in which services are provided (Box 9); and

- limiting the scope for providers to work together and to bundle services in a manner that best meets the needs of clients (ie, service integration).

Q20

**Are there examples where government contracts restrict the ability of social service providers to innovate? Or where contracts that are too specific result in poor outcomes for clients?**

### Box 9 **How prescriptive contracts can reduce service effectiveness**

The Commission has heard that some contracts contain quality standards requiring providers to provide evidence that they gather and act on client feedback. However, feedback may suggest actions that are directly contrary to the specifications of the contract.

For example, a contract specifying that a service must be delivered via home visits will conflict with client feedback that home visits are not possible or desirable. This may, for instance, be because of the threat of violence if the client is seen to be cooperating with the authorities.

Such arrangements place providers in the difficult situation of choosing between breaching contract conditions and acting in the client's best interest.

It would be easy to dismiss prescriptive contracts as simply a result of ministers and public servants wanting to avoid negative media coverage, or as a symptom of a lack of trust in service providers. The reality is more complex. Ministers are accountable to Parliament for the manner in which public funds are spent. This accountability is an important element of New Zealand's constitution and democratic system of government. Further, public servants are subject to a wide range of public law and administrative requirements designed to ensure that public funds are used in a lawful, transparent and accountable manner. Box 10 summarises the main elements of the public sector accountability framework.

## Box 10 Public sector accountability framework

The main elements of the public sector accountability framework are:

- overarching “machinery of government” statutes – for example, the Constitution Act 1986, State-Owned Enterprises Act 1986, State Sector Act 1988, Crown Entities Act 2004, Public Finance Act 1989, Local Government Act 2002;<sup>25</sup>
- sector- or entity-specific legislation – for example, the Education Act 1989, Health and Disability Commissioner Act 1994, New Zealand Public Health and Disability Act 2000;
- rights-related legislation – for example, the New Zealand Bill of Rights Act 1990, Human Rights Act 1993, Privacy Act 1993; and
- oversight and accountability legislation – for example, the 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.

Ethical and administrative guidelines include the *Cabinet Manual 2002* and the State Services Commission’s *Public Service Code of Conduct*.

*Source:* OAG, 2006; Productivity Commission.

An important issue for this inquiry is how to fulfil the government’s legislative and constitutional requirement to use funds transparently and accountably, while allowing service delivery to be flexibly adapted by those with the greatest information about the needs of clients.

**Q21**

**How can the benefits of flexible service delivery be achieved without undermining government accountability?**

In contrast to many public sector contracts, 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 affect the likelihood of securing future contracts). Such *relational contracts* allow for adjustments to service delivery when unforeseen or unexpected circumstances arise. These adjustments mostly take place without the need for costly renegotiations, therefore reducing the overall cost of administering the contract (Baker, Gibbons & Murphy, 2001; Spiller, 2008).

<sup>25</sup> Amendments to the Public Finance Act 1989 and the Crown Entities Act 2004 in 2013 aimed to provide more flexibility around funding arrangements, improve reporting on the outcomes that are expected from appropriations, and clarify financial responsibility of department chief executives (The Treasury, 2014).

Relational contracts do not fit easily with the public sector accountability framework, despite recent use of the term by public sector agencies. Reasons include administrative rules that limit the discretion of contract managers to make ad hoc adjustments to service delivery, and annual funding cycles that reduce the certainty of future contracts (and therefore the incentive to cooperate).

The High Trust Contracts initiative, introduced by the Ministry of Social Development (MSD) in 2009, was one attempt to move contractual models closer to relational contracts and thereby reduce costs to both providers and government. It recognised that stable and established providers with a good track record do not pose the same risk of failure as untested providers, and that, as a result, inflexible contract terms could be removed.

**Q22**

**What is the experience of providers and purchasing agencies with high-trust contracts? Under what circumstances are more relational contracts most likely to be successful or unsuccessful? Why?**

Organisations with a different accountability framework, such as independent Crown entities, may be better able to develop relational contracts with service providers.

**Q23**

**Do Crown entities and non-government commissioning agencies have more flexibility to design and manage contracts that work better for all parties? Are there examples of where devolved commissioning has led to better outcomes?**

## Availability and capability of providers

The current provision of social services is often the result of decisions and relationships stretching back over many decades. History shapes both the current availability and capability of providers and the approaches and capability within government agencies.

In some instances providers have accumulated capital (social or physical) that other providers cannot easily replicate. If these providers rely on government funding, a form of mutual dependency can arise between government agencies and the provider. Mutual dependency can reduce the incentive of both parties to improve the way they operate.<sup>26</sup> This, in turn, can limit investment in capacity building and process improvements.

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<sup>26</sup> For example, the government may know that a provider cannot easily obtain other sources of funding so it does not have to be concerned about the provider walking away from a contract, even if contract terms are unreasonable. Similarly, a provider that knows that the government cannot feasibly find an alternative provider does not have to be concerned about losing the contract, even if it performs poorly.

The government's historical support of one provider over another can create (or at least enable) mutual dependency. For example, a history of rolling over contracts can act as a deterrent to new providers offering services.

Further, dependency can result in not-for-profit (NFP) organisations adapting their services, internal procedures and capabilities to fit with the requirements of government funding processes (through fear of losing funding). This can reduce their flexibility and their incentives to innovate. As Cribb (2005) noted:

Contracting is also considered to encourage the standardisation of services and voluntary organisations are said to increasingly emulate government agency structures and processes, so reducing the distinctiveness of the sector. (p. 8)

**Q24**

**Are there examples of where government agencies are too dependent on particular providers? Are there examples of providers being too dependent on government funding? Does this dependency cause problems? What measures could reduce dependency?**

## Using information technology for more effective services

In social services, as in the wider economy, innovative use of information technology (IT) is developing rapidly. Service planners and service providers are increasingly using IT and data analysis to allocate resources to where they will be most effective (KPMG International, 2013).

IT is also transforming the delivery of social services. For instance, IT is now being used in health for consultations with patients at a distance, to provide remote 24/7 access to personal health data, and to facilitate more prompt and complete transfer of health records between community and hospital providers and across District Health Board boundaries (IT Health Board, 2014). Sharing of personal health data requires robust security protocols to ensure privacy concerns are met.

**Q25**

**What are the opportunities for and barriers to using information technology and data to improve the efficiency and effectiveness of social service delivery?**

## Government social service agencies

Government agencies lack the information, relationships and capability to directly deliver all social services, and thus seek to purchase some services from providers. Agencies need to understand the performance of their services, programmes and contracted providers in order to account for their performance to ministers and to Parliament.

This section covers some of the challenges faced by government agencies in providing and purchasing social services.

### **Social services: produce or purchase?**

Some non-government providers can supply services more cheaply and at a higher quality than the government (Abelson, 2003; Domberger & Jensen, 1997). In other cases, direct delivery by government agencies is likely to be more efficient (Acemoglu, Kremer & Mian, 2007; Hart, Shleifer & Vishny, 1997).

It makes sense therefore for government to directly supply some services and to purchase others. In this way the government is able to make the best use of the public funds available. However, this is an oversimplification of both the choices available and the criteria that should be applied to making commissioning decisions.

The Commission has identified five general approaches already in use in New Zealand and elsewhere (Chapter 2). Four of these involve non-government provision:

- central government commissioning and delivery by a non-government provider;
- devolved commissioning and contracting;
- grants to non-government providers; and
- client-directed budgets.

In choosing between government provision and these four approaches, an initial question is who has the best information, capacity and incentives to deliver what is required with the greatest value for money?

Other important considerations include:

- whether the service involves the use of the state's coercive powers;
- political acceptability;
- the consequences and risks to the public associated with a failure of the service;
- the state's statutory or common law responsibilities to provide the service; and
- whether purchasing a service limits the government's control over its core functions.<sup>27</sup>

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<sup>27</sup> The activities that constitute the core functions of government are a matter of political debate. Most agree that the protection of person and property, national defence and international affairs are core functions. Some add education and the provision of infrastructure (Gwartney, Lawson & Holcome, 1998).

**Q26**

**What factors should determine whether the government provides a service directly or uses non-government providers? What existing services might be better provided by adopting a different approach?**

When the government purchases services from external providers, it has the opportunity to choose among competing providers. The next subsection examines the advantages and disadvantages of making the provision of social services contestable.

### **The pluses and pitfalls of contestability**

Contestability means that the opportunity to provide a service is open to all qualified providers, and that funding agencies reassess the best provider for the job at regular intervals. In theory contestability can drive the efficiency and effectiveness of social services through:

- stimulating efficiency and innovation, leading to improvements in the quality or cost of service delivery;
- providing a practical benchmark against which current approaches can be compared to alternatives;
- allowing entry by new providers;
- encouraging the reform or exit of poorly performing providers; and
- enhancing accountability by clearly allocating responsibilities between government agencies and service providers, and by providing an avenue through which service providers demonstrate they are providing the best option for clients.

**Q27**

**Which social services have improved as a result of contestability?**

**Q28**

**What are the characteristics of social services where contestability is most beneficial or detrimental to service provision?**

The nature of the service being offered and circumstances in which it is being provided strongly affect the gains from contestability in practice. There are several potential problems.

- Disruption to relationships between providers and clients. Relationships can be particularly important to the effectiveness of services to vulnerable persons. *Who* provides a service may be as important to the client as the service itself (eg, counselling and some forms of social work).

- Small or remote communities may not be able to sustain more than one provider. In such communities, clients may need to travel long distances to access alternative providers.
- Some providers have multiple contracts covering different services. The withdrawal of a single contract may undermine the ability of the provider to deliver their other contracted obligations. This reduces the scope for terminating a contract should service quality fall below an acceptable level.
- Some providers have suggested that contestability works against coordination and cooperation between providers.
- A lack of independent, reliable information that can be used to compare provider performance may mean the best provider is not selected.

If these problems are present, contestability may create costs that exceed its benefits.

**Q29**

**For which services in which parts of New Zealand is the scope for contestability limited by low population density?**

**Q30**

**Is there evidence that contestability is leading to worse outcomes by working against cooperation?**

Similarly, providers are concerned about the cost of preparing applications for government funding. The Commission has heard that current practices favour larger providers who have more resources to draft funding submissions.

**Q31**

**What measures would reduce the cost to service providers of participating in contestable processes?**

While the cost of tendering processes is a concern for providers, the broader issue is whether decision makers have the right information to award contracts to the most efficient and effective providers. For example, the Treasury (2013) suggests that government decision makers are not taking into account the past performance of providers when awarding contracts through tenders.

Similarly, it is an open question whether government officials have the capability to interpret the information and make good decisions.

... the purchaser is most commonly making decisions from Wellington for local communities they have little contact with, this may mean contracts are won based on the presentation skills of those producing tender documents, rather than who is the best fit to deliver for a particular community. The implications of such a process on the make-up of

the providers in the market could be significant, resulting in large 'corporate NGOs' [non-government organisations] out-representing small not-for-profit community organisations. (The Treasury, 2013, p. 14)

**Q32**

**What additional information could tender processes use that would improve the quality of government purchasing decisions?**

In some instances, while providers and agencies incur the cost of tender processes, contracts are renewed on a historical basis without significant changes to contract details. This can create the impression that (contestable) funding processes are a waste of resources; and that they are more about managing political risk and less about improving service quality or cost.

As many of these contracts roll over after 12 months anyway, 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? (The Treasury, 2013, p. 22)

**Q33**

**What changes to commissioning and contracting could encourage improved services and outcomes where contestability is not currently delivering such improvements?**

There will inevitably be instances when a change in service provider is necessary – either as a result of contestable processes or because the incumbent provider is no longer able to provide the required service. In such cases it may be important that processes are in place to ensure a relatively seamless transition to the new provider. The Commission is interested in hearing about handover processes and improvements that could be made to reduce disruptions from a change of provider.

**Q34**

**For what services is it most important to provide a relatively seamless transition for clients between providers?**

**Q35**

**Are there examples where the transition to a new provider was not well handled? What were the main factors that contributed to the poor handover?**

## Provider diversity

A diversity of potential providers can offer multiple benefits (Sturgess, 2012).

- *Choice*: For government agencies, choice can strengthen the benefits of contestability (discussed above). Choice also enables clients to select the providers that most closely meet their needs. This can mean not only better services, but also a sense of control and empowerment – something clients often value.
- *Adaptability*: Provider diversity helps government agencies adapt to changing circumstances. For example, diversity can mean that government agencies are better placed to respond when an incumbent ceases operation or fails to meet its contractual obligations.
- *Innovation*: Different providers bring different perspectives and ways of thinking about how to improve service delivery. Diversity in thinking allows problems to be tackled from a multiple angles and perspectives. “Organisations and systems characterised by greater diversity are better at solving problems than homogeneous ones” (Sturgess, 2012, p. 19).
- *Different strengths*: Different organisational forms have different strengths and weaknesses, and can fill different operating niches. For example, for-profit firms have access to equity and debt finance that makes it relatively easier for them to fund capital-intensive projects such as retirement villages. Similarly, NFPs have close contacts with particular communities.

**Q36**

**What are the most important benefits of provider diversity? For which services is provider diversity greatest or most limited? What are the implications for the quality and effectiveness of services?**

## Culturally appropriate commissioning and purchasing

When commissioning a service intended to be predominantly for an identifiable group, agencies need to determine:

- who in the community they should consult;
- how best to build appropriate and effective relationships with the providers and communities they intend to work with; and
- whether to work only with providers specialising in services to that particular group, or to specify cultural competence as a general contractual requirement.

Government processes should allow for cultural differences in how communities make decisions. For instance, where an agency would like to commission a service that requires a

change in the way a community asset is used, some groups may need to hold hui or other community decision-making processes before signing a contract.<sup>28</sup>

These processes may not fit readily with typical government timeframes and contracting processes. However, they can be important for achieving buy-in and community acceptability essential for the service to be effective.

**Q37**

**How well do government agencies take account of the decision-making processes of different cultures when working with providers?**

Consultation is time-consuming and costly, but it is often essential to achieving effective service delivery design, and consequential service uptake. Yet those for whom a service is most intended may be the hardest to reach through consultation. The groups with the most useful information may not be the most obvious or easiest group with whom to consult. Traditional views in some cultures about the rights of women, sexuality and religion may make it difficult for some clients to participate in consultation.

Commissioning agencies nevertheless need to make sure they have an understanding of issues relevant to access and uptake of services for clients. Client views should be unfiltered by others as much as feasible.

**Q38**

**Do government agencies engage with the appropriate people when they are commissioning a service?**

Depending on the service, commissioning agencies face choices about whether cultural appropriateness is best achieved through general contractual requirements or through working only with providers specialising in services to a particular cultural group.

A larger pool of providers offers advantages, including a wider range of capabilities that can be drawn on. Yet cultural competence requirements may be hard for commissioning agencies to specify and for providers to demonstrate.

The decision to choose to work only with specialist providers involves multiple factors, including obligations under the Treaty of Waitangi. The decision is likely to hinge on the relative availability and capability of potential providers.

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<sup>28</sup> Examples include using land for housing, changing the use of an existing building, and using capital funds held in trust for the community.

Q39

**Are commissioning agencies making the best choices between working with providers specialising in services to particular groups, or specifying cultural competence as a general contractual requirement?**

### Treaty of Waitangi obligations

The relative overrepresentation of Māori in indicators of poor social outcomes such as ill-health or poverty, and the existence of a substantial number of Māori providers, means that commissioning agencies need to think carefully about service provision for Māori. In addition, the Treaty of Waitangi can shape expectations and discussion about service delivery. For example, some may advocate that *rangatiratanga* (used in the Māori version of the Treaty) supports increased local control over service delivery.

The Crown has specific obligations under the Treaty, some of which have been incorporated into legislation. These legal obligations are often requirements to consult, specifically with iwi.

In contrast to the legal obligations, some participants in service provision consider that honouring the Treaty has much broader implications. 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)

This combination of expectations and legal obligations means that government agencies need to consider carefully the role of iwi/Māori in deciding what services to deliver, how they are to be delivered, and how the effectiveness of those services is evaluated.

Q40

**How well do commissioning processes take account of the Treaty of Waitangi? Are there examples of agencies doing this well (or not so well)?**

### Contract design and measures of performance

A contract is a formal agreement that commits the parties to perform specific actions. For a contract to be useful, it needs to specify those actions in a way that makes obligations clear and facilitates subsequent measurement (Box 3). Specification matters for the purchasing agency, 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.

The performance indicators in social services contracts are often input and/or output measures. For example, the number of hours worked by staff is an input measure, and the number of home visits made is an output measure.

Inputs are a poor choice as a performance measure as they do not provide information on the services provided, nor do they necessarily relate to client outcomes. At worst, a focus on inputs encourages inefficiency.

Yet assessing a service by its outputs can also miss important dimensions of quality and effectiveness. For example, Whangarei Accessible Housing Trust (2012) noted:

Community-based providers such as ourselves, although small in scale, can and do provide quality outcomes to our tenants. This quality of living cannot be measured accurately using a simple “cost per bedroom” analysis ... (p. 3)

Reliance on output measures can also have unintended consequences, such as allocating more resources than necessary to a particular task in order to meet the output targets specified in contracts.

It is difficult to measure the outputs and outcomes of some types of social services (Gregory, 1995). If outputs and outcomes are not readily observable, it is hard to determine how an organisation (contracted or otherwise) is performing. It also makes it impractical to write a contract in which important obligations (such as payment) are tied to objective and observable measures of performance.

Improvements in client outcomes are often difficult to attribute to services delivered. Even so, some recent initiatives use payments for outcomes to give providers the flexibility to innovate and find the most effective way to deliver services (Table 3; Table 4). These initiatives require independent robust measurement of changes in outcomes that can be attributed to the services delivered. Such measurement is likely to be costly and may not be suited to small-scale programmes.

**Q41**

**Which types of services have outcomes that are practical to observe and can be reliably attributed to the service?**

**Q42**

**Are there examples of outcome-based contracts? How successful have these been?**

**Q43**

**What is the best way to specify, measure and manage the performance of services where outcomes are not easy to observe or to attribute?**

Further challenges with performance measures are comparability, accuracy and adequate sample size. Data needs to meet these criteria in order to make reliable comparisons across regions, providers and programmes, and over time.<sup>29</sup> Another challenge is long time lags between actions and outcomes.

Knowledge about the effectiveness of programmes allows government and providers to make more informed choices, and to design and deliver better social services. There can be substantial costs to forgoing such knowledge.

**Q44**

**Do government agencies and service providers collect the data required to make informed judgements about the effectiveness of programmes? How could data collection and analysis be improved?**

### **Streamlining government purchasing processes**

Rigidities in government contracting processes have long been a source of frustration to providers of social services – particularly those that contract with more than one government agency. Specific concerns include:

- inconsistent contracting processes across government agencies;
- providing the same information to multiple government agencies;
- delays in processing leading to cash flow problems for providers; and
- multiple contracts with the same agency.

The government has responded to these (and other) issues through various initiatives aimed at streamlining contracting with non-government providers. Box 11 describes a recent example.

#### **Box 11 Streamlining contracts**

Since March 2013 the Ministry of Business, Innovation and Employment (MBIE) has led a three-year project to introduce a new streamlined approach to contracting with non-government providers. The aim is to reduce inconsistency in, and duplication of, contract management practices across government agencies, as well as reduce compliance costs for providers. MBIE has developed a suite of standardised contract, contract-management and decision-making tools, collectively referred to as the Contracting Framework.

<sup>29</sup> In order to be *comparable*, data must be collected on a consistent basis, so that differences reflect reality rather than collection.

Next steps include:

- implementing agency transition plans to move contracts with providers over to the new documentation;
- testing the suitability of the framework within the District Health Board contracting environment;
- developing the Ministry of Social Development’s information technology system for approvals as the initial technology platform for coordinating audits across agencies, providers and programmes; and
- setting up an MBIE-managed contract register.

Despite these initiatives, many providers continue to express frustration with government contracting processes (eg, Platform Trust, 2014).

**Q45**

**What have been the benefits of government initiatives to streamline purchasing processes across agencies? Where could government make further improvements?**

It is an open question whether government (through its agencies) is capable of handling the information and relationships involved in many thousands of contracts with many thousands of providers (Figure 4). This, in itself, suggests a role for intermediaries.

## The government

The government seeks an efficient and effective social services system, reflecting in part other legitimate demands on its budget.

### Evaluation and learning

For a system to improve over time requires actors in the system to learn and to change the system in response. The social services system is complex and multi-layered (Chapter 3). So learning and change should occur at multiple levels and at appropriate intervals. Depending on the level, learning is typically termed monitoring, evaluation or research.

When operating well, such *learning systems* respond to new information on how to achieve desired outcomes in an efficient and effective manner. As long as new information is reliable and appropriately applied, the performance of the system should improve over time.

**Q46**

**Is there sufficient learning within the social services system? Is the information gathered reliable and correctly interpreted? Are the resulting changes timely and appropriate?**

When the links between actions and outcomes are not clear, then experimentation is required. There are two basic strategies for experimentation. Top-down experimentation tries relatively few approaches in a structured way to find answers to very specific questions. Bottom-up experimentation explores multiple approaches simultaneously. To be effective, both strategies require strong selection mechanisms – reinforcing successful approaches and encouraging the reform or exit of less unsuccessful ones.

The less clear the links between actions and outcomes, the more likely it is that bottom-up experimentation is the most effective strategy. The challenges for government are to create the environment in which service providers are able and incentivised to experiment, and to avoid overly specifying or constraining any aspect of service provision.

**Q47**

**Does the commissioning and purchasing system encourage bottom-up experimentation? Does the system reinforce successful approaches and encourage reform of less successful ones?**

## Targeting resources to best effect

Governments face difficult decisions when allocating funding and other resources. They need to decide how much to allocate to social services relative to other government priorities, and how to allocate resources between different social service areas and programmes. While the former decision is outside the scope of this inquiry, the latter is highly relevant.

Allocating resources towards where they will have greatest effect (and away from where they are having minimal or even negative effect) will increase effectiveness, and better promote overall wellbeing.

Governments need a framework for making such allocations in a principled way, and reliable data to underpin their decisions.

The Government has adopted an “investment approach” to assist with such decisions (Box 12). Questions for this inquiry include the merits of this approach, whether it can be improved upon, and whether the data it requires can be collected and appropriately analysed.

### Box 12 The investment approach to welfare

The Welfare Working Group (2011) advocated a long-term approach to assessing the social, economic and fiscal costs of the welfare system. Later that year, the Government released its *investment approach* to managing the welfare system. This approach aims to reduce the lifetime liability of the benefit system. *Liability* is defined as “all future lifetime costs of benefit payments and associated expenses” for people receiving benefits in a 12-month period up to the date the liability is estimated (MSD, 2014a, p. 9). The Ministry of Social Development (MSD) estimated the government’s future liability at \$76.5 billion as at 30 June 2013 (MSD, 2014a).

MSD’s recent four-year plan provides examples of how the Ministry is using estimates of welfare liabilities to target funding to areas where liabilities are greatest:

The average lifetime liability for someone receiving Jobseeker Support is \$116 000. However, the average lifetime cost for someone in receipt of the young parent payment (YPP) (aged under 19 years) is \$246 000. This information is helping us to rethink our operating model to invest resources in young people at risk of moving on to the YPP (MSD, 2014c, p. 8).

Future Focus reforms including greater referral to budget services have already banked over \$23 million in welfare Benefits and Other Unrequited Expenses savings with yearly Special Needs Grant expenditure running an estimated \$4.6 million lower per annum due to Future Focus hardship reforms (MSD, 2014c, p. 75).

Chapple (2013) is critical of basing social service investment decisions on likely reductions in future benefit payments. He considers that the approach has measurement difficulties, creates perverse incentives and ignores important benefits (eg, job quality). He advocates a standard cost-benefit analysis approach to making investment decisions.

**Q48**

**Would an investment approach to social services spending lead to a better allocation of resources and better social outcomes? What are the current data gaps in taking such an approach? How might these be addressed?**

### Using national data sets to inform decisions

Increasingly, governments are using information technology (IT) to inform spending decisions on social services. IT now facilitates the assembly of large datasets covering many measurements obtained from multiple sources, and which can follow programme participants through time. Analysis of such data can be used to better understand the links between

interventions and outcomes. This knowledge can then help the government to design a more efficient and effective package of interventions.

New Zealand is taking steps in this direction with the building of the Integrated Data Infrastructure (IDI) under the leadership of Statistics New Zealand, and the establishment of an Analytics & Insight Team (A&IT) at the Treasury.<sup>30</sup>

With relatively modest additional expenditures, the IDI and A&IT initiatives have the potential to leverage the vast amount of administrative data already generated by government programmes, to improve the efficiency, effectiveness and mix of those programmes.

However, there are also limitations to the IDI. For example, it contains little information on the household context in which individuals live. This information can be very important in evaluating the effectiveness of interventions and deciding where and how to target resources. The IDI contains only anonymised data, reflecting privacy concerns.

**Q49**

**How can data be more effectively used in the development of social service programmes? What types of services would benefit most?**

**Q50**

**What are the benefits, costs and risks associated with using data to inform the development of social service programmes? How could the risks be managed?**

## **Organisational and institutional barriers to improving social services**

Organisational culture and leadership are important to the performance of public agencies (NZPC, 2014). Leaders play a critical role in fostering productive, forward-thinking workplaces. Adopting new approaches can create tension between staff committed to traditional ways of operating and those supporting the changes. Professional subcultures may also work against adopting new practices that originate from outside the profession.

**Q51**

**How do the organisational culture and leadership of government agencies affect the adoption of improved ways of commissioning and contracting? In what service areas is the impact of culture and leadership most evident?**

<sup>30</sup> The IDI currently contains data sourced from tax, business, education, health, immigration, Accident Compensation Corporation, occupational health and safety, housing, justice and benefit records. It also contains data from Statistics New Zealand surveys.

Similarly, the organisational culture and leadership of providers affects how vigorously they seek out opportunities to improve performance, and how responsive they are to government initiatives. Many providers are values-directed organisations whose members and employees share a deep commitment to the mission and purpose of their organisation, which usually centres on helping others. Accordingly, members and employees may resist changes they see as not aligned with the culture and mission of the organisation.

Negative experiences with previous government initiatives can also engender a culture of cynicism towards new government initiatives.

**Q52**

**How do the organisational culture and leadership of providers affect the adoption of improved ways of supplying services? In what service areas is the impact of culture and leadership most evident?**

Institutional arrangements and organisational features also influence the uptake and success of innovative approaches to service delivery. For example, standard public sector accounting practices and accountability requirements may make it difficult (or at least not straightforward) to apply models that reduce transparency around the “bucket” of public money being used to pay for a particular service. The Office of the Auditor-General describes these tensions:

Throughout our work, we see that people are exploring new models and relationships to achieve the best value and be as effective as possible. Innovating and adapting are important, but public entities need to continue to respect the underlying principles that established ways of working aim to protect. New ways of working do not eliminate the need to show that public resources are managed appropriately ... In exploring and introducing new approaches, public entities need to ensure that they get the basics right. ... For example contractors need to be tied into public sector accountability mechanisms. (OAG, 2014, p. 22)

**Q53**

**What institutional arrangements or organisational features help or hinder the uptake and success of innovative approaches to service delivery?**

Effective responses to some social problems require multi-agency responses. Recent changes to the Public Finance Act, implemented as part of the Better Public Services initiative, are designed to make it easier to coordinate across government agencies and to share budget appropriations.

**Q54**

**Have recent amendments to the Public Finance Act 1989 made it easier to coordinate across government agencies? Are there any examples where they have helped to deliver better social services? What further measures could be effective?**

## 6 Case studies

The inquiry terms of reference require the Commission to focus on specific social service areas and agencies. Broadly, the Commission was asked to work with one or two representative agencies and look at specific service areas, to draw lessons for the commissioning and purchase of social services in New Zealand and identify opportunities for change.

The Commission has identified four case studies. These will inform but not limit the inquiry. The Commission expects to learn much from investigating a wider range of services; covering other areas such as family violence, and drug and alcohol rehabilitation. The Commission therefore seeks submissions from all stakeholders with information to contribute to the inquiry.

### Case study selection

The Commission's main criterion for selecting case studies is the prospect of learning something distinct but complementary from each study about the effective commissioning and purchasing of social services. The primary purpose is not to draw conclusions about the effectiveness of the particular services included in the studies; rather it is to draw out lessons that can be applied more widely across the social services landscape.

Table 5 lists the selected case studies. They cover different service areas, use different commissioning models, and offer different learning opportunities.

The Commission seeks input in developing these case studies from providers, government agencies, clients and client advocates.

**Table 5 Case studies**

Case study	What the Commission expects to learn
Employment services	<ul style="list-style-type: none"> <li>• Pluses and pitfalls of commissioning non-government providers to provide services mostly provided directly by government agencies in New Zealand, but often contracted out in other countries.</li> <li>• How to design contracts that give providers incentives to achieve outcomes without creating undesired consequences.</li> <li>• The influence of complementary service provision (eg, income support) and of geography (small population centres) on the most effective way of commissioning services.</li> <li>• The use of population analytics, programme evaluation and an investment framework, to design and target social services.</li> </ul>

Case study	What the Commission expects to learn
Whānau Ora	<ul style="list-style-type: none"> <li>• Pluses and pitfalls of devolving the commissioning of services and the design of services.</li> <li>• Local integration of services funded by multiple agencies.</li> <li>• Issues in the commissioning and purchase of culturally appropriate services, and services that fulfil expectations for autonomy of Māori providers, whānau and iwi.</li> <li>• Involving clients in the design of services.</li> <li>• Balancing whānau autonomy in pursuit of outcomes against centrally chosen targets and accountability for centrally provided funding.</li> </ul>
Services for people with disabilities	<ul style="list-style-type: none"> <li>• Integration of services commissioned by separate agencies with responsibilities to the same client.</li> <li>• The effectiveness of client-directed budget models.</li> <li>• Difficulties in gate-keeping eligibility for client-directed budgets.</li> <li>• Managing boundaries between services provided under client-directed budgets and those provided under other arrangements.</li> <li>• Difficulties for clients in learning about and accessing an appropriate set of services.</li> </ul>
Home-based care of older people	<ul style="list-style-type: none"> <li>• How to make integrated services more cost-effective for funders and produce better outcomes for clients.</li> <li>• Which services and outcome areas are best suited to a devolved integrated approach.</li> <li>• The role of private (for-profit) providers.</li> </ul>

## Employment services

Work and Income, a service of the Ministry of Social Development (MSD), has the main responsibility for delivery of employment services for unemployed clients in receipt of a benefit. As of 2011:

Just over half of Work and Income's core employment services are delivered in-house, focusing mainly on people receiving Unemployment Benefit. This includes collecting and listing job vacancies, the Job Search Service, administering financial assistance and service co-ordination for those needing more complex help.

The remaining 46 per cent of Work and Income's annual spend is on national and regional contracted services to deliver work-focused social services. The contracts are a mix of outcome-based agreements (eg, Employment Placement Service, Pacific Youth Mentoring Service, and In-work Support) and more general programmes to enhance employability (sole parent employment coaching and ability assessment for people receiving Sickness

Benefit). Providers include private companies, community trusts, training providers and other entities (Welfare Working Group, 2011, p. 130).

The Welfare Working Group recommended that employment services be based on contestable, outcome-based contracts (Welfare Working Group, 2011). These recommendations were only partially adopted. Employment services for youth and people with disabilities are now being contracted out. For the majority of its clients, Work and Income chose to adopt an investment approach to prioritising its efforts with clients (Box 12), together with strengthening the case-management capabilities of its front-line workers.

Other agencies, such as the Accident Compensation Corporation (ACC), health providers and education providers, supply services that complement efforts to assist job seekers into employment, especially where they lack skills or have particular health or disability challenges.

## **Whānau Ora**

Whānau Ora is a relatively new approach to the commissioning, contracting and delivery of social services to families, particularly to Māori and Pasifika families (Box 4). There is a strong emphasis on providers helping families to determine their own goals and choose the means to achieve those goals. Funding from different agencies is pooled at the local level to give flexibility to providers to choose the most effective mix. Te Puni Kōkiri recently contracted three non-government agencies to take over responsibility for commissioning services from providers.

Whānau Ora has a philosophy of engaging the whānau collectively, even when the presenting issue relates to an individual member of the whānau.

## **Services for people with disabilities**

Services for people with disabilities cover a spectrum supplied by health and other professionals, and by non-government providers of disability services funded by the Ministry of Health (MoH). Work and Income provides or contracts services to assist people with disabilities to find employment. Also, the ACC supports people whose disabilities are the result of accidents.

MoH is operating and expanding the Individualised Funding scheme – a form of client-directed budgeting. The scheme covers some community- and home-based services for people with disabilities.

The Enabling Good Lives initiative, coordinated by the Office of Disability Issues within MSD, has projects under way in Christchurch and Waikato. It is funded by MSD, MoH and the Ministry of Education.

## Home-based care of older people

Better services and support for home-based care of the aged can reduce the need for hospital admissions and residential care. Finding the right mix of services to achieve this is best worked out at a local level, and requires flexible budgets and decision makers sharing the same goals. Health alliances (Table 3) were set up to be networks of primary health service providers and District Health Boards (DHBs), with objectives that include moving services to community-based settings and supporting self and community care. Canterbury DHB was a leader of this approach in New Zealand.

**Q55**

**Are there important issues for the effective commissioning and contracting of social services that will be missed as a result of the Commission's selection of case studies?**

## Next steps

Table 6 sets out the proposed timeline for the inquiry.

**Table 6 Inquiry timeline**

Date	Milestone
26 June 2014	Receipt of terms of reference
7 October 2014	Issues paper released
October–November	Engagement on issues paper
2 December 2014	Due date for issues paper submissions
Early March 2015	Release of draft report
March–April	Engagement on draft report
Mid-April	Due date for draft report submissions
30 June 2015	Final report to Government

The Commission may openly test its thinking on specific issues through additional mechanisms, such as published research notes, discussion forums and expert roundtables.

The Commission welcomes requests to meet with interested parties throughout the inquiry.

**Q56**

**Are you willing to meet with the Commission? Can you suggest other interested parties with whom the Commission should consult?**

# Summary of Questions

Q1

What are the most important social, economic and demographic trends that will change the social services landscape in New Zealand?

Q2

How important are volunteers to the provision of social services?

Q3

What role do iwi play in the funding and provision of social services and what further role could they play?

Q4

What contribution do social enterprises make to providing social services and improving social outcomes in New Zealand?

Q5

What are the opportunities for, or barriers to, social-services partnerships between private business, not-for-profit social service providers and government?

Q6

What scope is there for increased private investment to fund social services? What approaches would encourage more private investment?

Q7

What capabilities and services are Māori providers better able to provide?

Q8

Why are private for-profit providers significantly involved in providing some types of social services and not others?

Q9

How successful have recent government initiatives been in improving commissioning and purchasing of social services? What have been the drivers of success, or the barriers to success, of these initiatives?

Q10

Are there other innovations in commissioning and contracting in New Zealand that the Commission should explore? What lessons could the Commission draw from these innovations?

- Q11** What other international examples of innovative approaches to social service commissioning and provision are worth examining to draw lessons for New Zealand?
- Q12** What are the barriers to learning from international experience in social services commissioning? What are the barriers and risks in applying the lessons in New Zealand?
- Q13** Where and when have attempts to integrate services been successful or unsuccessful? Why?
- Q14** What needs to happen for further attempts at service integration to be credible with providers?
- Q15** Which social services are best suited to client-directed budgets? What would be the benefit of client-directed budgets over existing models of service delivery? What steps would move the service in this direction?
- Q16** Which social services do not lend themselves to client-directed budgets? What risks do client-directed budgets create? How could these risks be managed?
- Q17** What examples are there of contract specifications that make culturally appropriate delivery easy or more difficult?
- Q18** How could the views of clients and their families be better included in the design and delivery of social services?
- Q19** Are there examples of service delivery decisions that are best made locally? Or centrally? What are the consequences of not making decisions at the appropriate level?
- Q20** Are there examples where government contracts restrict the ability of social service providers to innovate? Or where contracts that are too specific result in poor outcomes for clients?
- Q21** How can the benefits of flexible service delivery be achieved without undermining government accountability?

**Q22**

What is the experience of providers and purchasing agencies with high-trust contracts? Under what circumstances are more relational contracts most likely to be successful or unsuccessful? Why?

**Q23**

Do Crown entities and non-government commissioning agencies have more flexibility to design and manage contracts that work better for all parties? Are there examples of where devolved commissioning has led to better outcomes?

**Q24**

Are there examples of where government agencies are too dependent on particular providers? Are there examples of providers being too dependent on government funding? Does this dependency cause problems? What measures could reduce dependency?

**Q25**

What are the opportunities for and barriers to using information technology and data to improve the efficiency and effectiveness of social service delivery?

**Q26**

What factors should determine whether the government provides a service directly or uses non-government providers? What existing services might be better provided by adopting a different approach?

**Q27**

Which social services have improved as a result of contestability?

**Q28**

What are the characteristics of social services where contestability is most beneficial or detrimental to service provision?

**Q29**

For which services in which parts of New Zealand is the scope for contestability limited by low population density?

**Q30**

Is there evidence that contestability is leading to worse outcomes by working against cooperation?

**Q31**

What measures would reduce the cost to service providers of participating in contestable processes?

- Q32** What additional information could tender processes use that would improve the quality of government purchasing decisions?
- Q33** What changes to commissioning and contracting could encourage improved services and outcomes where contestability is not currently delivering such improvements?
- Q34** For what services is it most important to provide a relatively seamless transition for clients between providers?
- Q35** Are there examples where the transition to a new provider was not well handled? What were the main factors that contributed to the poor handover?
- Q36** What are the most important benefits of provider diversity? For which services is provider diversity greatest or most limited? What are the implications for the quality and effectiveness of services?
- Q37** How well do government agencies take account of the decision-making processes of different cultures when working with providers?
- Q38** Do government agencies engage with the appropriate people when they are commissioning a service?
- Q39** Are commissioning agencies making the best choices between working with providers specialising in services to particular groups, or specifying cultural competence as a general contractual requirement?
- Q40** How well do commissioning processes take account of the Treaty of Waitangi? Are there examples of agencies doing this well (or not so well)?
- Q41** Which types of services have outcomes that are practical to observe and can be reliably attributed to the service?
- Q42** Are there examples of outcome-based contracts? How successful have these been?

**Q43**

What is the best way to specify, measure and manage the performance of services where outcomes are not easy to observe or to attribute?

**Q44**

Do government agencies and service providers collect the data required to make informed judgements about the effectiveness of programmes? How could data collection and analysis be improved?

**Q45**

What have been the benefits of government initiatives to streamline purchasing processes across agencies? Where could government make further improvements?

**Q46**

Is there sufficient learning within the social services system? Is the information gathered reliable and correctly interpreted? Are the resulting changes timely and appropriate?

**Q47**

Does the commissioning and purchasing system encourage bottom-up experimentation? Does the system reinforce successful approaches and encourage reform of less successful ones?

**Q48**

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**Q52**

How do the organisational culture and leadership of providers affect the adoption of improved ways of supplying services? In what service areas is the impact of culture and leadership most evident?

**Q53**

What institutional arrangements or organisational features help or hinder the uptake and success of innovative approaches to service delivery?

**Q54**

Have recent amendments to the Public Finance Act 1989 made it easier to coordinate across government agencies? Are there any examples where they have helped to deliver better social services? What further measures could be effective?

**Q55**

Are there important issues for the effective commissioning and contracting of social services that will be missed as a result of the Commission's selection of case studies?

**Q56**

Are you willing to meet with the Commission? Can you suggest other interested parties with whom the Commission should consult?

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# Appendix A 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.

HON BILL ENGLISH, MINISTER OF FINANCE

HON DR JONATHAN COLEMAN, MINISTER OF STATE SERVICES

NEW ZEALAND  
PRODUCTIVITY COMMISSION  
Te Kōmihana Whai Hua o Aotearoa

