NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa

More effective social services

August 2015

The Productivity Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders.

More effective social services

August 2015

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

Date: August 2015

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

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ISBN: 978-0-478-44021-8 (print) ISBN: 978-0-478-44022-5 (online)

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

Foreword

Social services play a vital role in the wellbeing of New Zealanders. The Commission was pleased – and somewhat daunted – to be asked to carry out this inquiry. It was clear from the outset that success would depend on the support of the many people and organisations, both outside and within government, with deep knowledge and experience in the design and delivery of social services. I am very happy to report that we received that support.

The Commission received 246 submissions and held more than 200 meetings with participants. People were very generous with their time and expertise, contributing enormously to our understanding of the issues and to our recommendations. I would like thank all those who made these valuable contributions, and sincerely hope this report does them justice.

Our initial impressions included the hard work, perceptive thinking and commitment of those who help deliver social services to those in need. But many reported deep dissatisfaction with the system in which they worked – it was bureaucratic, inflexible, wasteful and unable to learn from experience. Contracting, frequently the interface between government agencies and non-government providers, was a particular pain point. But of more concern was the message that despite this hard work and commitment, and the public resources applied, social services were often failing to improve the lives of New Zealanders in need.

The inquiry's draft report looked at social services as a system. Its draft recommendations aimed to improve performance across the system through, for example, improved information, clearer responsibilities, and assigning decisions to those best placed to make them. In particular, we proposed that social services clients, where capable, should have more control over the services they receive.

Feedback suggested that our analysis was incomplete. Clearly the system worked satisfactorily for many – perhaps most – New Zealanders. We re-examined where the system was failing most – for those people with multiple, complex needs and little capacity to access services. We asked whether our draft recommendations would provide a sufficient lift in performance to achieve better outcomes for those people. We concluded that it was not enough to just make the current system work better. A new approach is required to make a real difference for the most disadvantaged New Zealanders. This approach will require a major shift in thinking and structures. It is both achievable and realistic, but implementation will take time and persistence.

Our final inquiry report has two key messages. First, system-wide improvement can be achieved and should be pursued. Second, New Zealand needs better ways to join up services for those with multiple, complex needs. Capable clients should be empowered with more control over the services they receive. Those less capable need close support and a response tailored to their needs, without arbitrary distinctions between services and funds divided into "health", "education", etc. These are significant, but extremely worthwhile, changes for New Zealand.

Professor Sally Davenport, Dr Graham Scott and I oversaw the preparation of this report. We acknowledge the work and commitment of the inquiry team: Geoff Lewis (inquiry director), Dave Heatley, James Soligo, Ron Crawford, Dennis MacManus, Paul Miller, Lynne Dovey, Marti Eller and Richard Clarke, and the other Commission staff and contractors who made important contributions.

MURRAY SHERWIN
Chair
August 2015

Terms of reference

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

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

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

Context

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

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

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

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

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

Purpose and Scope

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

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

   What institutional arrangements would support smarter purchasing/commissioning?

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

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

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

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

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

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

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

Analysis and Recommendations

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

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

Consultation

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

Timeframes

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

Referring Ministers

Hon Bill English, Minister of Finance

Hon Dr Jonathan Coleman, Minister of State Service

[2] The inquiry timeframe was subsequently extended to 31 August 2015.

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KEY

F	Findings
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Commonly used terms

Term	Description
actuarial	Relating to the compilation and analysis of statistics usually to calculate insurance risks and premiums.
allocative efficiency	Maximum allocative efficiency requires the production, from a given amount of resources, of a set of goods and services that people most value.
central agency	One of three agencies: the Treasury, State Services Commission or the Department of Prime Minister and Cabinet. All three have a system-wide perspective and between them have responsibility for the Government's Budget, strategy and chief executive performance.
the centre	Central government. Often used as shorthand for Wellington-based government agencies and their activities.
clients	A generic term the Commission adopts in this inquiry for all users of social services regardless of the context. For example, clients include patients, students, beneficiaries and people required by a court to undergo anger-management or drug counselling. Sometimes the client can be a group such as a family or whānau. It is intended to be a neutral term and not to convey any particular approach or attitude to social services or users of social services.
client-directed budget	A service model where government allocates clients a "service budget" and permits them to choose the services they receive up to the value of the budget. Government funding follows the choices made by providers.
client-directed service models	The client-directed budget and voucher service models.
commissioning	A set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices about which service model is the best match for the defined population or client group. They should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider-market sustainability and interactions with other services.
community of interest	People with a shared interest and identity that can be wider than living in the same place.
competition for the market	An approach to contracting in which providers compete for contracts through a tendering process, and their service volume or market share is fixed for the duration of the contract.
competition in the market	An approach to contracting in which providers compete alongside each other to attract clients.
contestability	The characteristic of situations where providers, whether public or private, face a real prospect that alternative providers will replace them if their performance is persistently unsatisfactory.
contracting for outcomes	Contacts that specify desired outcomes, and there is a risk of losing the contract if those outcomes are not achieved.
contracting for outputs	Contacts that specify the outputs, and there is a risk of losing the contract if those outputs are not delivered.

Term	Description
contracting out	A service model where a funder (typically a government agency) contracts a third party to provide specific social services.
Crown entity	A Crown entity is a body established by law in which the Government has a controlling interest – for example, by owning a majority of the voting shares or through having the power to appoint and replace a majority of the governing members – but which is legally separate from the Crown.
CYF	Child, Youth and Family – a business unit of the Ministry of Social Development with responsibility for carrying out the statutory duties set down in the Children, Young Persons, and Their Families Act 1989.
demand-side	Market activity, influences or conditions related to consumers of goods and services.
devolution	The transfer of substantial decision-making power and responsibility to autonomous or semi-autonomous organisations with separate governance.
diffusion	The process by which a new idea, technology or product is adopted across a society or economy.
economic profit	The difference between revenue and costs, where all inputs (including capital) are valued at their *opportunity cost* (ie, what they could earn in their next most valued use).
economies of scale	Reduction of cost per unit as the volume of production increases, due to large upfront or fixed costs being spread across more units.
economies of scope	Economies of scope exist when combining two or more activities into a single organisation is less costly (or produces better outcomes for the same cost) than specialised organisations producing them separately. For example, economies of scope arise when there are learning spillovers (ie, learning in relation to one task helps to better deliver on another).
family services	A collective term used to refer to family counselling services, parent education services, family planning services and budgeting services. In this report, family services do not include crisis counselling or child protection services.
for profit (FP)	An organisation that earns profits for its owners.
government agency	A government department, ministry or Crown entity.
incumbent	In economics, an *incumbent firm* is an established business with a strong position in the market.
information and communications technology (ICT)	Telecommunications, broadcast media and information technology (IT). *ICT* is a more encompassing term than *IT,* and stresses the innovative role of unified communications and integrated digital networks in economic activity.
innovation	The process of translating an idea or an invention into a good or service that has value.
intervention	Services that intervene in a situation to alter the likely course of future events.
managed market	A "market" with more than one provider, where market share and prices are determined administratively.

Term	Description
market for social services	A *market* is a setting in which parties voluntarily undertake exchanges. In the context of this inquiry, the *market for social services* refers to the provision of social services in exchange for payment. Funding could come from a government agency or another organisation (eg, a philanthropic trust). In some cases, clients partly or fully fund the service. The provision and purchase of social services meets the economic definition of a market, yet it has complex and distinctive features that make it different from simple markets. The term was used in the inquiry terms of reference.
monopoly	A situation where one provider is the only supplier of a service. A *monopoly* is characterised by an absence of competition.
monopsony	A market that has only one buyer and many would-be sellers.
navigator	A suitably experienced person who works with clients and families to help identify, prioritise and sequence a package of services and support for them. Ideally, a navigator has the flexibility to source or purchase services from a wide variety of suppliers.
non-government organisation (NGO)	Any organisation other than a government agency. Many of the submissions to this inquiry use the term in a narrower sense, typically as a synonym for "not-for-profit social services provider".
not for profit (NFP)	An organisation that does not earn profits for its owners. Money earned by or donated to a NFP is used to pursue the organisation's mission and objectives.
outcome-focused contracting	Contracting for outputs, in the context of clear intervention logic, outcome measurement and a clear and upfront statement of the purpose of the contract. The purpose statement should be used as a basis for discussion aimed at improvement.
outcomes	The longer-term consequences of an intervention or programme in terms of the ends sought (eg, better health or reduced re-offending).
outputs	The amount of social services provided. Examples include hours of counselling, number of patients seen and the number of people attending training courses.
Pasifika	A collective term to describe peoples from Polynesia, Melanesia and Micronesia. In this report, Pasifika refers to those living in New Zealand.
payment for outcomes	Contracting for outcomes, plus payments that vary according to performance measures specified in terms of outcomes achieved.
payment for outputs	Contracting for outputs, plus payments that vary according to performance measures specified in terms of outputs delivered.
probity	Parliament's and the public's expectations of an appropriate standard of behaviour.
procurement	The act of buying goods, services or works from an external source.
productive efficiency	Maximum *productive efficiency* requires that goods and services are produced at the lowest possible cost. This requires maximum output for the volume of specific inputs used, plus optimum use of inputs given their relative prices.
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.
quality shading	A situation in which cost savings are achieved by reducing the quality of a service. Quality shading is a particular problem when it is difficult to observe or measure the quality of services being provided.

Term	Description
result or intermediate outcome	An intermediate step contributing to an outcome, generally more easily measured in the short term than the outcome.
service model	A way of conceptualising different approaches to service delivery. Chapter 6 explores seven different service models and their strengths and weaknesses.
service stewardship	The ongoing monitoring of service performance, and re-visiting design choices as necessary to improve performance.
social insurance	An insurance scheme organised by the state with compulsory membership, and in which premiums are related to the ability to pay.
Social Sector Board	The Social Sector Board is a forum of the chief executives of the Ministries of Social Development; Education; Health; Business, Innovation and Employment; Justice; Pacific Island Affairs; and the Department of Corrections; New Zealand Police; Te Puni Kōkiri; and Statistics New Zealand. The Secretary to the Treasury and Chief Executive of Housing New Zealand Corporation attend as required. It has its own cross-agency work programme and reports to the Cabinet Social Policy Committee.
social services	Services dedicated to enhancing people's economic and social wellbeing by helping them lead more stable, healthy, self-sufficient and fulfilling lives. This inquiry is primarily concerned with social services that government provides, funds or otherwise supports.
social services agencies	Government agencies that commission or deliver social services. Often abbreviated to *agencies* in this report.
social services providers	Non-government organisations that provide social services.
social services system	The system of organisations, institutions and relationships through which social services are funded, coordinated and delivered.
supply-side	Market activity, influences or conditions related to producers of goods and services.
system architecture	The design of institutions that govern the operation of the social services system. It includes the roles and responsibilities of different organisations and rules around their interaction.
system stewardship	An overarching responsibility for the monitoring, planning and management of resources in such a way as to maintain and improve system performance. Relevant activities include monitoring system performance, identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change.
thin market	A market with few actual or potential suppliers.
top-down control	Primary decision-making power sits with the relevant minister or department head.
transaction costs	Costs incurred by the parties making an economic exchange, other than the amount paid directly for the good or service purchased. Transaction costs can include *search costs* such as the cost of tendering processes, *bargaining costs* such as the legal fees associated with drawing up a contract, and *enforcement costs* such as the cost of performance reporting and monitoring.
vouchers	In a voucher service model, clients receive subsidised or free access to a defined service. Clients access the service through providers approved or licensed by the Government. Typically the Government pays the client's chosen provider directly.

Te Reo Māori terms

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

Term	Description
hapū	Kinship group, clan, tribe, subtribe.
hui	Literally a gathering or meeting. As used in this report, hui refers to a community meeting conducted according to tikanga Māori (Māori protocol).
iwi	Often translated as "tribe". Iwi is a collection of hapū (clans) that are composed of whānau (defined below). The link between the three groups is genealogical.
kaitiaki	Trustee, minder, guard, custodian, guardian, caregiver, keeper, steward.
kaitiakitanga	Guardianship, stewardship, trusteeship, trustee.
kaumātua	Adult, elder, elderly person, old man – a person of status within the whānau.
kaupapa	Purpose, mission, or approach. Kaupapa Māori means an approach reflecting Māori values and culture.
kawanatanga	The features and actions of governing.
koha	Gift or donation.
kōhanga reo	Literally "language nests" – pre-school Māori culture and language immersion programmes.
kōrero kanohi ki te kanohi	Conversing face to face.
kura kaupapa Māori	Māori-medium schools.
mana	Prestige, authority, control, power, influence, status, spiritual power, charisma.
manaaki	Support, hospitality, kindness, generosity.
manaakitanga	The process of showing respect, generosity and care for others. It has an overtone of hospitality towards those outside a group one identifies with. In its simplest definition (hospitality), all Māori groups or whānau will exercise manaakitanga at some time.
mana motuhake	A political concept, emphasising autonomy and self-government.
mana whakahaere	Translated variously as the "power to manage", "governance" or "authority".
mana whenua	The iwi or hapū who are recognised as deriving mana (authority/status) from their ancestral connection to a particular piece of land or stretch of coastline.
marae	Literally "courtyard" – the open area in front of the *wharenui*, (meeting house) where formal greetings and discussions take place. Often also used to include the complex of buildings around the *marae*.
mataawaka	Refers to the Māori population in one area that is connected to an iwi or hapū who holds mana whenua somewhere outside that area.
mokopuna	Grandchild – child or grandchild of a son, daughter, nephew, niece, etc.
pākehā	New Zealander of European descent; literally English, European or foreign.
rangatira	Chieftain, chieftainess, master, mistress, boss, supervisor, employer, landlord, owner, proprietor.
rangatiratanga	A contested term in the context of Te Tiriti o Waitangi. It can refer to chieftainship or chiefly authority and leadership. Other interpretations include "sovereignty" and "autonomy".

Term	Description
rohe	Boundary, district, region, territory, area, border (of land).
rūnanga	A governing body associated with an iwi.
Te Puni Kōkiri	The Ministry of Māori Development.
Te Tiriti o Waitangi	The Treaty of Waitangi. The treaty signed by representatives of the British Crown and various Māori chiefs at Waitangi on 6 February 1840. The Treaty is one of New Zealand's founding documents. The Treaty has English and Māori versions. The translations do not strictly align.
tangata whenua	Literally "the people of the land".
tāonga	That which is precious or treasured.
taura here	Binding ropes, urban kinship group, domestic migrants, kinship link.
te ao Māori	Literally "the Māori world".
Te Ika a Māui	Literally "the fish of Māui" – the North Island of New Zealand.
Te Hiku o Te Ika	The part of the Far North District that is north of the Hokianga.
Te Waipounamu	The South Island.
tikanga	Literally "the things that are correct". Sometimes translated as "protocol" or "customary practice", tikanga is the customary system of values and practices that have developed over time and are deeply embedded in the social context.
tino rangatiratanga	Self-determination, self-governance.
wāhi tapu	Sacred place, sacred site – a place subject to long-term ritual restrictions on access or use (eg, a burial ground or a battle site).
wānanga	Publicly owned tertiary institutions that provide education in a Māori cultural context.
whakapapa	Genealogy, genealogical table, lineage, descent.
whānau	Typically translated as "families". Whānau may refer to nuclear or extended families.
Whānau Ora	A government initiative emphasising the empowerment of whānau to become self-managing. More broadly, Whānau Ora is an approach to delivering social services based on a Māori concept of wellbeing, which aims to have the various needs of a whānau met holistically.
whānaungatanga	A broad kinship concept that acknowledges inter-connectedness between people and the environment, through whakapapa. It is from this inter-connectedness that specific obligations of care arise. These duties are not just to direct kin; they can arise also through the inter-connectedness of all people in Māori cosmology.

Source: Based on Moorfield, n.d.

Overview

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

Some New Zealanders are particularly disadvantaged. The Commission has come to the view in this inquiry that the current system is not working at all well for these people. The Commission believes that a different approach is needed to support them to improve their lives. To not change could condemn them and their children to a continuing poor quality of life, and continue to inflict large costs on the rest of society through both negative impacts on others and the high costs of government services that "pick up the pieces".

Social services cater for people in different circumstances

Denise is a mother of two children, aged four and six.[3] She has a violent partner who mishandles alcohol and other drugs. Denise and her children turn up late one night at Auckland City Mission in a distressed state, she with bruises and a black eye and no access to funds, the younger child clearly ill with a bad chest infection. The Mission provides the three with emergency shelter for the night. In the morning, the difficult struggle begins to help Denise sort out her life and her children's lives.

Denise faces a daunting challenge to enlist the help of a disparate set of bureaucracies for her multiple needs: safe, warm and dry housing; immediate income to buy food; medical treatment for herself and her younger child; continuity of schooling for her older child; protection from the violent partner she has fled; or a reconciliation based on his addressing his drug and alcohol problems.

No one agency or provider has the mandate or the resources to arrange the package of help that Denise needs right now. She will have to trail around telling her story and supplying her details many times over. The help she does qualify for will probably not be coordinated and prioritised into an integrated plan that gives her hope of a better future for her and her children.

For people like Denise and her family, the Commission believes that a different approach is possible – one that will provide the right mix of services required to meet their complex needs. A significant part of this report is about where and why the system is failing the Denises of New Zealand. It describes the direction of change that is needed, and offers concrete steps for making them happen.

Other New Zealanders also have complex needs and rely a great deal on social services for their quality of life. Examples are those with physical and mental disabilities, and older New Zealanders with high health needs.

The Commission also finds significant scope to improve services for these people. Organising services in different ways to achieve better integration across them, and making use of the increasing opportunities to innovate with new technologies, can offer better outcomes without greater cost.

Charlie is an intelligent, educated 43-year old in a wheelchair due to muscular dystrophy. He uses Individualised Funding to tailor some services to meet his needs. For other services, Charlie relies on providers contracted by government to deliver services in his area. He often finds these services don't really match his needs or they are not available at the time he wants them. As a result, he seldom uses all the hours of support allocated to him. Charlie is often frustrated that he doesn't have a greater say in the services he gets. After all, who understands his requirements better than he does? He finds dealing with multiple government agencies a chore and can't see why his funding isn't pooled into one budget that he controls – this would give him more freedom to live the way he wants.

[3] The cases in this section are fictional. The Commission has constructed the cases to illustrate the different circumstances of social services clients. Denise's case is loosely based on Auckland City Mission's research project documenting the real experiences of people needing social services. See Auckland City Mission (2014).

Aroha is an older person. While her health is generally good, she was recently diagnosed with a heart problem. Her failing eyesight means she has had to give up her driver's licence. As a result, she is finding it hard to get into town to do her shopping, visit her GP and pick up her medication. This has left Aroha feeling isolated from her community.

Aroha's children do what they can for her but, with children of their own, they don't get to see her as often as they used to. Her oldest son has talked about Aroha moving into a retirement home but Aroha loves her house and garden and wants to stay put. Although she has access to some home support services through her local DHB, she finds the services are not well integrated with each other, and with her heart specialist and GP.

This report also covers people such as Bernard who belong to what might be called the mainstream. Bernard's main interaction with the system is through the local school and childcare centre that his children attend. On occasions, they may need to visit their local GP or perhaps a hospital if the issue is more serious. Bernard's needs are not overwhelming and intertwined like Denise's needs, and are less complex than those of Charlie or Denise. The Commission finds much that is positive in New Zealand's mainstream social services that serve everyone at different points in their lives. Yet there are still significant opportunities to improve services, such as better information online to help Bernard make more informed decisions about services and providers.

A very important point is that services for the mainstream are mostly provided satisfactorily through the familiar service "silos"– the government agencies such as health, education, police and justice. Mainstream clients approach these agencies, or non-government organisations contracted by them, to receive whatever service they need at the time.[4]

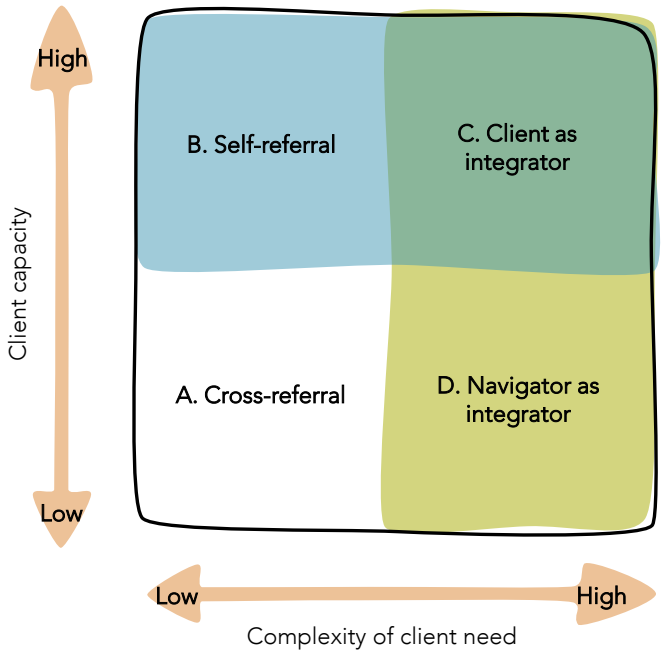
The situation is quite different for clients with complex needs – particularly when these needs are inter-dependent so that treating some needs but not others is likely to be ineffective. A significant degree of coordination across the services is required for good outcomes. Unfortunately, the provision of services separately through government silos rarely achieves adequate coordination. New approaches are needed. Charlie's Individualised Funding is one approach, but it is not suitable for many people. Denise needs a "navigator" to help her get her life back on track. Her navigator needs the authority and funding to take effective action and to be held accountable for what is achieved.

Aroha needs her DHB to better integrate her health and social services. This would help Aroha stay safely in her own home, reducing the demand for hospital beds and residential places from Aroha and others like her. Less demand would be financially beneficial for the DHB and the taxpayer, which could mean more elective surgery and shorter waiting lists for other patients.

Figure 0.1 is a quadrant diagram that the Commission has found useful to segment the four typical client types described above. Denise is in quadrant D of high complexity of need and low capacity to coordinate services by herself. Charlie (quadrant C) also has multiple and complex needs, but he is in a good position to choose and direct a package of services to meet them. Aroha's needs may be clear, but she will probably require, or want, help to make the best choices (so she is in quadrant A). Bernard will generally be in quadrant B (when he is competent to self-refer to a service for a particular need) and sometimes in quadrant A (when he requires help to make the best choice such as when a GP refers him to a specialist).

[4] The Commission uses "client" as a generic term for service users across the social services. In specific contexts this could mean patient, prisoner, student etc.

Figure 0.1 Characteristics of clients of the social services system



To maximise their effectiveness, social services should be arranged differently to match the needs of people in different quadrants. The Commission sees the most potential for improvement in social services and outcomes for users in quadrants C and, especially, quadrant D. Current outcomes for the disadvantaged New Zealanders who fall in quadrant D are not good – and in turn these poor outcomes have large negative impacts across society.

New Zealand also suffers high rates of:

- domestic and sexual violence;
- children in need of protective care;
- inequality in achievement across schools;
- re-imprisonment; and
- damp, inadequate housing.

Data made available to the Commission suggests that outcomes such as these tend to occur together for a relatively small number of the most disadvantaged individuals and families. Further, a large proportion of the costs to government of healthcare and social care, income support, corrections services and police services are linked to these disadvantaged individuals and families. The 10 000 highest-cost clients of the social services system are each expected to generate lifetime budgetary costs of $500 000 or more, involving a total cost of $6.5 billion. This is one indication of the prospective gains to improving outcomes for the most disadvantaged New Zealanders. More important, but harder to quantify, are the prospective gains in safety, health and wellbeing for these people.

A change of approach can make a real difference, and New Zealand could reap a large reward.

The Commission's approach

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

The inquiry drew on evidence from many sources including:

- academic research, commissioned research, government reports and data;
- 246 submissions from organisations and individuals including government agencies, not-for-profit (NFP) providers, for-profit (FP) providers, and clients and their advocates;
- more than 200 face-to-face meetings with a wide cross-section of interested parties; and
- engagement with government agencies to draw lessons from existing programmes.

At a time when the Government is strongly focused on more effective social services, the Commission believes this report makes a significant contribution to understanding the causes of system under-performance and to achieving better results.

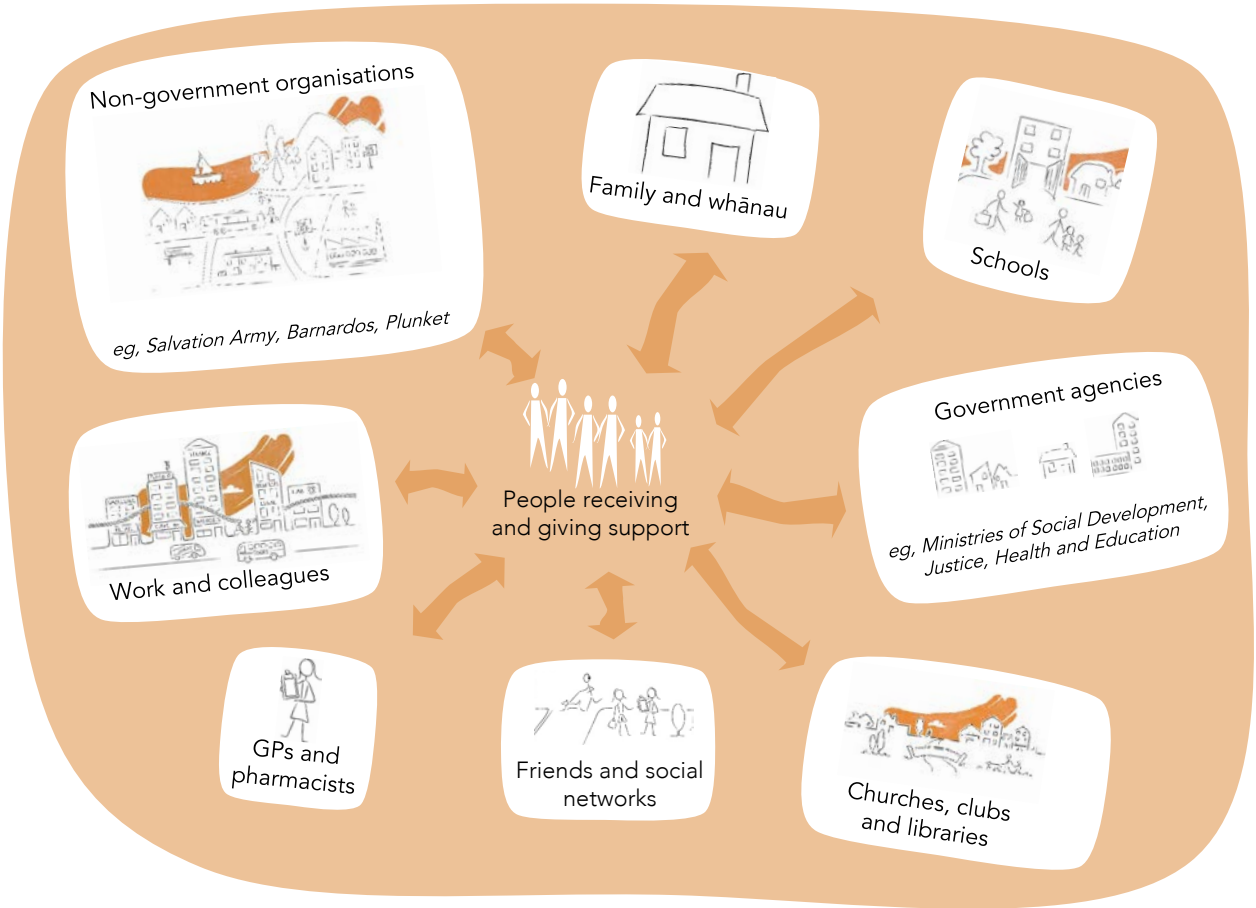
Social services in New Zealand

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

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

This complex set of influences, compounded across the social services system, makes it impossible for central government to understand all the processes and interactions that influence system outcomes. The Government has neither the information nor the levers to steer the system in a precise way to a pre-determined destination. It should treat social services as a complex, adaptive system.

Figure 0.2 Elements of the social services system



Central government spends about $34 billion a year on health, education and other social services. Most of this spending goes to universities, hospitals, schools and frontline departments, with the rest used to contract out services. For example, the Ministry of Social Development (MSD) planned to spend 20% of its total expenditure on social services in 2014/15 to pay for services that are contracted out.[5]

Social services are delivered by a mix of government, NFP and FP providers (Figure 0.2). History, population mix and geography have all influenced the landscape of service providers and the funding arrangements under which they operate.

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

The sheer size and complexity of the social services system make generalisations difficult. Even so, the Commission's broad observations are that the social services system has positive attributes. Some of these are:

- the system delivers quality services to millions of New Zealanders – contributing to New Zealand's above-average ranking on the Organisation for Economic Co-operation and Development (OECD)'s Better Life Index in areas such as health status, personal security, housing and subjective measures of wellbeing;
- government agencies are willing to launch trials and experiments;
- social services workers, including a significant number of volunteers, are highly committed to improving the lives of clients;
- pockets of successful innovation exist in several areas, such as the use of data management and analytics; and
- governments have committed, and continue to commit, strongly to improving public services.

The Commission has also observed weaknesses in the social services system, such as:

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

[5] This excludes income support and benefit payments.

- the system often disempowers clients by casting them as passive recipients of services rather than active participants in decisions.

The Commission observed a large "stock" of existing social services that continue to be funded and run in much the same way over decades, with little evaluation of their impact or cost-effectiveness. At the same time, a flow of new initiatives attracts much attention but has little effect on the existing stock or on the performance of the system as a whole. This is consistent with an important inquiry finding that the current system is not good at evaluating programmes, or at expanding programmes that are effective and amending or phasing out programmes that are not.

Diagnosing the causes of system weaknesses and finding ways to overcome them is crucial in view of pressures on the system such as population ageing, the persistence of disadvantage, rising social expectations and the rising costs of delivering some services such as treatment in hospital. Disadvantage and deprivation have very high personal, social and economic costs in addition to their direct fiscal costs. New Zealand is not the only country facing these pressures. Governments around the world are grappling with ways of improving the outcomes from their large expenditures on social services. Much can be learnt from innovative approaches to social services being applied in New Zealand and elsewhere.

New ideas in New Zealand and elsewhere

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

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

Other schemes seek to empower clients and give them greater choice over which bundle of services best meets their needs, and who provides them. The new Australian National Disability Insurance Scheme (NDIS), currently in the middle of a multi-year roll-out, allows people with disabilities to choose a range of support to achieve their goals, within budgets determined by their level of need.

NDIS has demonstrated how giving clients like Charlie a budget and a choice over how to spend it prompts providers to be responsive and innovative. Yet such programmes also create pressures to expand entitlements, increasing programme costs. Programme designers need to carefully consider how to control cost pressures in such initiatives.

The Whānau Ora programme aims to empower families (whānau) to determine their own goals and choose a set of services and support to help achieve them. Navigators assist whānau to find the services and support they need. The family-centred, rather than service-centred, design of Whānau Ora gives it the potential for integrated care and support when multiple obstacles stand in the way of whānau development. Yet the programme has been hampered by unclear responsibilities and fragmented funding and accountabilities.

Other new approaches aim to sharpen incentives and stimulate innovation through some form of payment by results. Examples include social impact bonds and "contracting for outcomes". A key feature of both these approaches is that they leave the means of achieving the results up to the provider.

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

Poor system performance and its causes

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

As noted, the system's performance has positive aspects; yet weaknesses persist. Diagnosing the causes of these weaknesses is an important and necessary step towards improving the system.

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

- target public funds towards areas with the highest net benefits to society;
- match the services provided to the needs of clients;
- deal effectively with the multiple and inter-dependent problems experienced by many of New Zealand's most disadvantaged individuals and families;
- ensure decision makers (at all levels) have adequate information to make choices;
- respect clients' wishes and needs, and respond to changes to those wishes and needs and to the external environment;
- meet public expectations of fairness and equity;
- respond to the aspirations and needs of Māori and Pasifika; and
- foster continuous experimentation, learning and improvement.

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

Many parts of government are involved in social services and, collectively, they have a huge influence on the system. In the Commission's view, certain features of how government performs its roles in social services are not well suited to tackling complex social needs and circumstances.

Government agencies often fail to work effectively with each other and with others such as family, friends, providers and community groups who each have a potentially important influence on outcomes. This is partly due to the structure of government and the arrangements in place to promote the judicious use of public funds. Other factors are political debate and point scoring, and close media scrutiny. Together, these factors act to the detriment of effective service delivery by driving operational issues to the top of the system, and by promoting risk aversion and micro-management.

The government part of the system, in which siloed agencies directly provide social services, or purchase them from others, sometimes works well; but quite often does not. A single agency will often not recognise or respond effectively to the inter-connections between the outcomes it is seeking and those sought by other agencies. This fragmentation means there is no-one with visibility of the system as a whole and of its performance.

The strong vertical lines of accountability in government silos run all the way from ministers to the frontline of services delivery. The need for accountability and political risk management favours the use of prescriptive contracts, short contract periods and onerous reporting requirements. These factors work against the development and spread of innovation, and discourage productive and trusting relationships between government agencies and non-government providers.

Despite its shortcomings, most New Zealanders (those in quadrants A and B) are able to navigate the system to access the social services that they require reasonably well. However, the system badly lets down those in society with complex needs that span across the silos, and who lack the capacity to extract what they need for support and to help turn their lives around (particularly those in quadrant D).

For these people (and for some of those in quadrant C), accessing the services they need, in the form that they want, and when they want, can be extremely difficult and frustrating. Too often needs go unmet, opportunities for early intervention are missed and disadvantage perpetuated. For taxpayers it often means the fiscal cost of the system escalates as people re-enter the system at a later date at more costly intervention points – such as emergency units and prisons. The human costs are extremely high for these clients, their children and wider society.

Over the years many in government have recognised the problems of silos and made many attempts to strengthen the horizontal "glue" across agencies. These efforts have tended to focus on "joining up" from the top – often through ministerial or chief executive working groups – with the hope that the connections between silos will filter down to critical points closer to the frontline. However, what such initiatives can achieve within the existing structures of government appears to have a natural limit. Changes are needed, particularly if the cycles of disadvantage that affect far too many New Zealanders are to be broken.

While the failure to treat deep disadvantage is the main weakness of the current system, other weaknesses spring from similar and other causes.

- Many agencies and providers lack clarity about the objectives of the system and their part in it.
- Too little effort is made to capture and analyse information on the impact and cost-effectiveness of services, and to draw and spread lessons from existing services and new initiatives.
- Those with decision rights often lack the required information, incentive and capability to make decisions consistent with efficient and effective social services.
- Heavy reliance on letting contracts to a single successful provider (competition "for the market" as opposed to several providers competing to attract clients "in the market") disempowers clients by not giving them a choice of provider.
- Government agencies quite often pay less than full cost when contracting providers to deliver the Government's goals and commitments. Such underpayment is unreasonable.
- Purchasing and contracting social services appear to be slowly improving from a baseline well below best practice. But there are limits to gains that government can achieve by improving the contracting-out model.
- As the dominant purchaser of social services, government has neglected its responsibility and ability to shape and manage the supply side of the market for social services. Consequently, the market is not performing as well as it could.
- The services that government agencies provide in-house face too little testing of whether they achieve high standards and value for money.
- The organisational cultures of providers and government agencies are often resistant to change.
- Political pressures (real or anticipated) make it difficult for agencies to re-allocate funding away from under-performing programmes.

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

Armed with insight and understanding about the main causes of under-performance in the social services system, it is possible to start developing constructive solutions that neutralise or mitigate the effects of system weaknesses. The areas where the Commission sees the most scope for beneficial change include:

- purposeful stewardship by the Government of the overall system within which social services are delivered (Chapter 5);
- a more sophisticated and systematic approach to commissioning social services (Chapter 6);
- increased visibility of the full range of benefits and costs of different services for different client types (Chapters 6, 8 and 9);
- encouraging a system that learns and innovates (Chapter 7);
- greater use of data and analytics (Chapter 8);

- devolving budgets and decision making to entities tasked specifically with improving outcomes for people with multiple, complex problems who need help in navigating services (Chapter 10);
- greater use of client-directed and other devolved approaches (Chapters 5, 6 and 11);
- improved contracting and purchasing, including contracting for outcomes (Chapter 12); and
- openness to partnering with Māori groups to meet their aspirations and needs (Chapter 13).

Dealing with individuals and families with multiple, complex needs is a particular challenge and is where the current system markedly under-performs. This challenge is not unique to New Zealand, and defies simple solutions. What is clear is that well-intentioned people are attempting to solve complex problems in somewhat of a vacuum of information about what works, why it works, how well it works, who it works for and how much it costs. And fragmented budgets and decision rights frustrate these people.

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

Designing the system architecture

Social services form a complex system, the overall effectiveness of which is a function of the actions of all participants, the formal and informal rules that influence those actions, and the relationships between those participants. Those rules and relationships define the structure or *architecture* of the system.

Government's unique role as the major funder of social services, with statutory and regulatory powers unavailable to other participants means that its decisions, more than those of any other party, have the potential to affect the system's architecture, and therefore its effectiveness. However, government control in modern democracies is far from complete, and substantial change will require broad support from participants.

Two broad architectural designs are applicable to social services.

- *Top-down control* means that decision-making power primarily sits with the relevant minister or chief executive of the agency.
- *Devolution* transfers substantial decision-making powers and responsibilities to autonomous or semi-autonomous organisations with separate governance.

The crucial consideration in choosing between these two broad architectures is under which architecture decision makers have authority, information, capability and incentives to make and implement decisions that maximise social returns.

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

- This approach is a good match to some services, particularly when standardisation and scale efficiencies are important (generally services for clients in quadrants A and B). But top-down control is a poor match where clients have multiple, complex service needs (quadrants C and D).
- Top-down control tends to dampen innovation, reduce coordination between agencies and limit flexible adaptation to client needs and local circumstances.
- In some cases, top-down control will be the appropriate option. Where it remains the best option, the implementation of top-down control could be improved.

Governments have recognised situations – both inside and outside social services – where top-down control leads to poor societal outcomes and so devolved decision making to organisations with varying levels of

independence. Four examples in social services are DHBs, Pharmac, Whānau Ora and the Te Hiku Social Accord. Reasons why devolution can improve on top-down control include:

- decision makers close to the community or culture of clients will have greater ability to tailor services based on local knowledge;
- well-designed organisations at arm's length from ministers should face less intense political pressure towards risk aversion and micro-management;
- pushing decisions down can mobilise and empower local resources; and
- devolution produces diverse approaches across locations, which can enable valuable comparison and learning.

Devolution is not a panacea. For example, devolution, if not well thought through, can dilute accountability and dampen the spread of innovation. For devolution to be most effective, it needs to be complemented with other measures. Some of these (such as national standards, regulation, and data collection) may involve some centralisation. Ideally, subsidiary organisations should face strong incentives to intervene early to reduce future costs, and so deliver better long-term outcomes for clients.

The Commission sees much potential to improve the social services system by greater and smarter use of devolution, particularly for clients in the segments represented by Charlie (quadrant C) and Denise (quadrant D).

A "one-size-fits-all" architecture across social services is not a sensible approach. Meeting the widely varying circumstances and needs of clients requires a system made up of several different architectures. A one-size-fits-all approach has been ineffective in improving the lives of New Zealanders who suffer serious disadvantage from having multiple and complex problems. Top-down control is particularly inappropriate. Those families and individuals need a tailored response, in many cases drawing on services from across traditional social services silos. More use should be made of the abilities, knowledge and capabilities of the many providers and community organisations that know and work with such people.

System stewardship and the enabling environment

Taking responsibility for system architecture is part of what the Commission calls *system stewardship.* The responsibilities of system stewardship include:

- conscious oversight of the system as a whole;
- clearly defining desired outcomes;
- monitoring overall system performance;
- prompting change when the system under-performs;
- identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change;
- setting standards and regulations;
- ensuring that data is collected, shared and used in ways that enhance system performance;
- improving capability;
- promoting an effective learning system; and
- active management of the system architecture and enabling environment.

The role of system steward falls to the Government. This is because of its unique role as the major funder of social services, and its statutory and regulatory powers unavailable to other participants. Stewardship

responsibilities can be spread over several bodies or agencies – for example, responsibility for monitoring performance could be assigned to a separate, independent, government entity.

As part of stewardship, the Government has responsibility for the "enabling environment" for the social services system. Two particularly relevant enablers are budgeting for and funding social services, and ensuring a comprehensive data network that can boost the capabilities and effectiveness of all participants.

The Commission finds current arrangements fall somewhat short of what is required for good system stewardship. The Government should explicitly assign system stewardship responsibilities to organisations well-placed to discharge those responsibilities.

Better commissioning of services

Commissioning is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. This report emphasises that a wider range of skills and capabilities are required for commissioning than suggested by the more commonly used term *procurement*. Further, commissioning organisations should consider a wider range of options for delivering services than the two most common – contracting out and in-house delivery.

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

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

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

The Government should appoint a lead agency to promote better commissioning of social services. This agency should produce guidance and facilitate training for commissioning organisations.

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

Seven service models for delivering social services

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

- *In-house provision* by a government agency permits close political control and accountability. It is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers. A key challenge with in-house provision is creating pressure on providers to deliver good performance, especially when the agency is also the service commissioner. Benchmarking is one way of providing such pressure. Work and Income's benefit and employment services are examples of in-house provision.
- *Contracting out* is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients. Problems that can arise include high transaction costs, clients having little or no choice of provider, and prescriptiveness that hampers innovation. Strengthening Families is one example of contracting out.
- *Managed markets* allow multiple providers to compete for market share. They can encourage investment and innovation, which are difficult to achieve in non-contestable systems. Yet managed markets are complex; requiring careful design and regulation, and the acceptance of high transaction and

monitoring costs. Other challenges include working with thin provider markets, establishing prices, and ensuring service quality. Australian employment services are a successful example.

- *Trust* models capitalise on the intrinsic motivation of provider employees and organisations. They require careful design to ensure quality is adequately monitored through peer monitoring or regulatory oversight, as sometimes the freedom that trust gives providers can be misused to the detriment of funders and clients. General medical practice is an example of a trust model.
- *Shared-goals* models appeal to the intrinsic motivation of players to work collaboratively to achieve mutually agreed goals. The model is inclusive of all parties, and encourages constructive and integrated problem solving and creative solutions. Shared goals models rely on good leadership and a supportive culture, and can be challenging to replicate. The Canterbury Clinical Network is an example of a shared goals model.
- *Client-directed-budget* models offer much when the client (or their representative) is well placed to choose the services that best suit their circumstances. These models motivate providers to offer good value to clients, encourage innovation and empower service clients. Client-directed budgets (CDBs) are not suitable where the client does not possess the capacity to make choices for themselves. Individualised Funding is an example of a CDB.
- *Voucher* models work by clients choosing among providers offering a similar service. Government funding flows to providers according to those choices. Early childhood education and tertiary education are examples. Challenges of voucher models include ensuring service quality and fair access for clients with more complex and costly needs.

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

The Commission sees significant opportunities for better outcomes through better choices of service models, particularly for clients in quadrants C and D. Denise needs the help of many different services and to be involved in the development of a plan that will work for her. This may point to a shared-goals approach. By contrast, the CDB model is well suited to clients like Charlie.

Funding practices

The Commission encountered a lot of dissatisfaction with the funding of social services contracts. Government needs to clarify its objectives in funding services, and match the type of funding to those objectives. Legitimate options for funding include full funding, contributory funding, tied and untied grants, and no funding.

Government should always be explicit about the type of funding, the level of control that government expects with its funding, and the likely consequences of its funding decisions. Government should fully fund those services that deliver on the Government's goals and commitments.

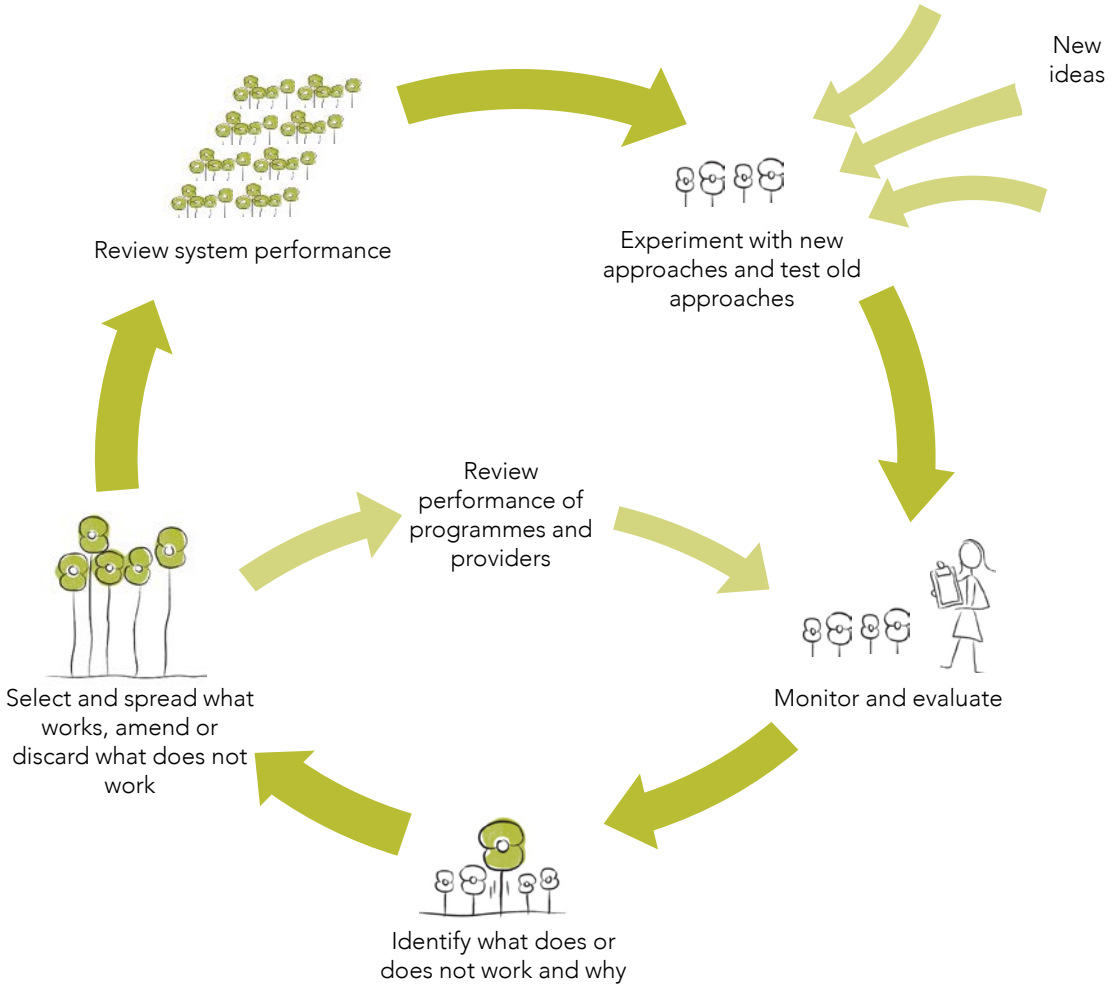
Government appears to underfund some contracts with non-government providers for the delivery of fully specified social services. Long-term underfunding has undesirable consequences. Payments should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. Payment at this level would encourage investment and adequate staff training by existing providers and entry by new providers.

Creating a system that learns and innovates

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

Lifting the effectiveness of social services in New Zealand will require a system that learns over time about what works, then selects the successful approaches and amends or winds down the approaches that fail to achieve good results (Figure 0.3).

Figure 0.3 A system that learns



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

A system that learns needs to have:

- clear goals to achieve better outcomes cost-effectively from social services;
- strong incentives to find, and the flexibility to try, new ways of doing things;
- information flows that provide ongoing feedback to clients, providers and commissioning organisations and citizens about what is working;
- a willingness to tolerate trials that fail (while dealing with failure quickly);
- the ability to structure trials and experiments in a way that can be scaled up if successful; and
- the flexibility to take up and spread successful innovations.

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

Different system architectures and service models have different strengths and weaknesses in promoting learning and innovation. A centralised top-down architecture tends to generate fixed decisions about what works with too little tailoring to particular circumstances, and not enough bottom-up experimentation. A

totally devolved approach permits a lot of local experiments. But, if information on what works best is not shared and successful approaches are not rewarded, then innovation does not spread. New Zealand social services have examples of both problems.

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

Devolved service models (such as managed markets, shared goals, CDBs and voucher models) foster diversity, innovation and learning in the social services system. If well designed, devolved service models promote the expansion of effective services and the curtailing of less effective services.

Social services providers, with some exceptions, have been little affected by the disruptive innovation that has transformed many market services. Modern information and communications technology (ICT) often plays an essential role in such models.

Innovation in social services is often small-scale, local, dependent on a few committed individuals and incremental; but systematic and cumulative innovation has significantly changed prevailing business models in some areas. One example is the Canterbury DHB's HealthPathways model, which was adopted by several other healthcare systems in New Zealand and Australia.

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

Improved commissioning and contracting have the potential to reduce some of the current barriers to innovation. Organisations commissioning social services should shift more contracting towards contracting for outcomes and make greater use of devolved service models. Doing both would give providers increased flexibility and incentives to innovate.

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

Initiatives under way should improve the quality of evaluation (eg, through Superu) and of collection and analysis of data. These are to be welcomed, but new approaches are needed alongside to enable cost-effective monitoring and evaluation in real time across the system, using a wider range of information than is typically used in evaluations currently. Commissioning organisations should ensure that each programme they fund is monitored and evaluated in a way commensurate with the programme's scale and design.

Leveraging data to improve social services

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

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

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

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

This better linking of data would be especially beneficial for clients such as Denise whose needs span a number of government and provider silos. Without linking and without a trusted navigator with access to the linked data, those trying to help her will see only fragments of the total picture, and Denise will need to tell her story many times over.

The New Zealand Data Futures Forum (NZDFF) has recommended a way to realise the potential benefits and mitigate the risks of sharing, linking and using data.

The NZDFF recommended that getting value from sharing, linking and using data should follow the principles of inclusion, trust and control. *Inclusion* is raising public awareness and capability in finding, using and understanding data and the data environment. *Trust* is focused on building trust in the sharing of data. *Control* is giving individuals more control over the use of their personal data. The Government has endorsed these principles.

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

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

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

Social investment and insurance

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

Having the information and the required resources is just what most disadvantaged New Zealanders with multiple, inter-dependent problems lack. Yet they are often the people for whom timely intervention will yield the highest returns on investment – to them and wider society.

MSD's Investment Approach is an attempt to increase the effectiveness of social services through better investment and targeting of investment. It is also about providing information and incentives to support early intervention, rather than waiting for a crisis. This approach adopts investment and insurance tools to prioritise clients and services and selects interventions based on expected reduction in future welfare liability (FWL). This is a measure of net fiscal benefit to the Government when it takes a long-term perspective. It differs from a full measure of social and economic costs and benefits, yet it is a legitimate measure for governments to focus on. Further, the reduction in future fiscal liability can often be taken as a (somewhat conservative) proxy measure for future social benefits. This is because when a person moves off income support into work:

- the reduced support payments are a crude proxy for additional production in the economy (even though reduced payments are themselves simply transfers from beneficiaries to taxpayers); and
- any consequential savings in future health, crime, protective care, justice and prison costs are savings in real economic resources.

While the proxy of reduced future fiscal liability is imperfect, an investment approach is a significant improvement on traditional approaches.

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

There is scope to improve on MSD's Investment Approach and to apply it more widely within and across different government-funded social services areas. Currently the Investment Approach is applied operationally only in the part of MSD that administers working-age benefits, employment services and youth services.

Other service areas such as education and justice are beginning to apply it. The SSB with the Treasury has initiated work to apply an investment approach across agencies and to appraise budget proposals for social services. This work is at an early stage. The Commission recommends pursuing it towards recording and crediting savings and other benefits across the whole range of areas affected by an intervention initiated by just one provider (such as treating mental health, or early treatment of conduct disorder in a child).

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

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

Social insurance is attractive in theory, yet challenging in practice. It takes a long time to design and establish a social insurance system, and transitioning to a new system would likely be difficult.

The Commission is not recommending the wide extension of social insurance in New Zealand.

A more promising model is a combination of a fuller (cross-agency, cross-time) version of the investment approach, a devolved architecture and client enrolment. Data analytics and a data network that collects the right data on services, on the clients who use services and on the outcomes that eventuate for these clients hold the key to coupling the power of the investment approach to the benefits of a devolved system. Properly set up, this approach could support new models to help disadvantaged New Zealanders with multiple and complex needs.

Integrating services for better outcomes

Specialisation in social services and the organisations that deliver them make it difficult and costly for clients to get the mix and sequencing of services that best meet their needs. It also makes it difficult to improve the efficiency and effectiveness of services by linking and coordinating across administrative and professional boundaries. Initiatives to promote better integration of services take many different forms

Integration has costs and benefits and these need to be weighed in deciding how much integration to pursue and by what means. Integration initiatives should focus particularly on areas where the net benefits of integration are strong.

Social services systems with complex, inter-connected service pathways offer opportunities for big gains in efficiency and effectiveness through integration. A good example is healthcare – think of the challenge of getting the right balance between primary and secondary care and the often rigid demarcations between different health professions. Yet if community, primary and secondary care are organised optimally, they will not only give clients better services but keep them out of hospital through preventive programmes and making treatments available at home and in the community. The Canterbury Clinical Network, using a shared-goals service model, is an example of the savings and better client experiences that are possible.

The fragmentation of social services to the detriment of clients with complex needs, such as Denise, is a long-standing issue that has proved difficult to resolve, despite many attempts. Fragmented services make it difficult to provide the best mix of services at the right time for such clients. As a result, services are often ineffective at improving outcomes for clients. Fragmented delivery is usually a symptom of problems in the way social services are commissioned and contracted.

The Commission had identified several conditions that need to be fulfilled to deliver an effective, integrated package of services to the most disadvantaged New Zealanders suffering a complex of intertwined problems. These conditions include:

- a skilled, client-centred navigator who is close enough culturally and geographically to understand the client's circumstances and to build a relationship of trust with them (be they individual, family or community);
- clear responsibility of the navigator for achieving outcomes for the client that are agreed by both the client and the commissioner/funder – this will usually require the client to be "enrolled" with the navigator;
- a realistic allocation of funds to the navigator to provide the means and flexibility for an integrated package of services for the client to help them turn their life around;
- information systems and a decision-making framework that allocates funds to where they have the most effect; and
- devolved decision making that gives the navigator the freedom to provide or purchase services in the way that will best meet the client's needs.

The Commission has developed two models that it believes could fulfil these conditions. The Government should seriously consider them (or variants of them) as offering distinctly better prospects to improve outcomes for the most disadvantaged New Zealanders.

One model would set up a "Better Lives" agency with dedicated funding and a mission to improve outcomes for people across New Zealand in the most disadvantaged group (quadrant D). It would make use of devolved commissioning agents that are "close" to the clients. Some would be new organisations, and some could be existing ones (such as some NFPs and Whānau Ora commissioning agencies).

The other model widens the role of DHBs into District Health and Social Boards (DHSBs). DHSBs would become commissioners in their regions of health and social services for the most disadvantaged New Zealanders (quadrant D). For instance, DHSBs could buy services from Primary Health Organisations and through them, general practice.

Both models would fund local navigators who would engage with clients and have control over a budget to buy services to best meet their needs. For instance, they could buy services from mainstream agencies or from non-government providers.

Empowering clients and giving them more choice

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

- *what* services to deliver;

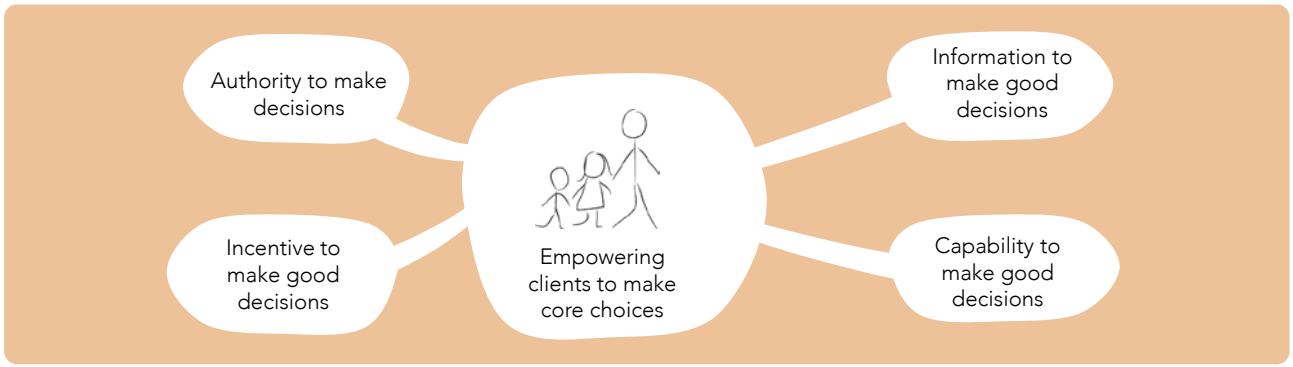
- *who* will deliver the services;
- *when* the service will be delivered;
- *where* the service will be delivered; and
- *how* the service will be delivered.

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

The social services system will work best when people with the information, incentive, capability and authority make these decisions. In cases where clients have the capacity and are well informed (quadrants B and C), this will generally be the client or their representative.

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

Figure 0.4 Empowering clients to make core choices



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

Shifting the power balance from the organisations that commission and deliver social services to clients would achieve better outcomes. For this to occur, client choices need to influence the allocation of public money to providers. Government departments must let go of the reins of central control to allow the necessary power shift.

Yet client choice is not appropriate for some services or clients. These include services involving the coercive power of the state and where people experiencing psychological trauma or acute physical trauma receive services. These people would generally fall in quadrant D.

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

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

The Commission heard concerns expressed about expanding client choice models and it explored the available evidence about these. Evidence strongly suggests that clients experience increased satisfaction from moving to CDBs. Evidence also suggests that most clients can and do wish to avail themselves of choice when they have the opportunity. The Commission could find no good evidence that working conditions of carers deteriorate as a result of CDBs, or that they are necessarily more expensive for the taxpayer.

The Commission recommends home-based support of older people, respite services, and drug and rehabilitation services as good prospects for applying a client-directed service model.

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

Better purchasing and contracting

Contracting out is the primary service model used to provide non-government social services in New Zealand. Government agencies have several thousand service delivery contracts with many thousands of NFP and FP providers.

Considerable effort is being applied within government to improve contracting. However, this is a work in progress. Providers reported many problems with contracting and saw significant room for improvement.

Many of these problems may result from poor commissioning, including inappropriate selection of a contracting-out service model. Such problems are unlikely to be ameliorated by improved contracting.

Contracting out is well suited to some services and to some client types, particularly those in quadrants A and B. Contracting out is a poor match to situations requiring integrated responses and packages tailored to specific clients (ie, quadrants C and D). It is important that contracting out is done well, whether selected by a robust commissioning process or used as a result of past decisions.

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

Current contracting regulations and guidance from the Ministry of Business, Innovation and Employment (MBIE), the Treasury and the Office of the Auditor-General (OAG) are difficult for agencies to follow and apply. This situation is a potential source of confusion.

To improve clarity, the Government should publish separate Rules of Sourcing for Social Services and a single set of guidelines. These rules and guidelines should make it explicit that contracting is one model available for the purposes of commissioning social services and needs to take account of that context. The Government should provide for training on these guidelines to agencies and to providers.

When contracting out, social services agencies should:

- ensure that relevant information is provided to all participating suppliers in tender processes;
- meet their own tendering timelines and report yearly on their compliance with timelines and deadlines set out in tendering documentation;
- take account of providers' past performance when assessing bids;
- apply a standard duration of three years to social services contracts unless risk analysis indicates otherwise;
- adopt a risk-based approach to monitoring contracts; and
- expand the use of contracting for outcomes.

Improving capability for contracting out should be developed alongside improved capability for commissioning.

The approach to contracting will continue to evolve, particularly when and if agencies act on the Commission's calls to improve the commissioning of social services and the availability of data. For example,

this evolution ought to see more focus on achieving outcomes, the spreading of contracting expertise to more devolved commissioning agencies, and the use of contracts in CDB models.

The Māori dimension

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

Māori are disproportionately represented in the client base of services that target and aim to help those at risk of poor outcomes. Yet, an approach that focuses on deficits alone would ignore the strengths that exist within Māori communities to create change for themselves. Although some other groups also have poor outcomes, the Treaty of Waitangi dimension adds weight to empowering Māori groups.

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

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

In making decisions about whether and how to devolve the commissioning and delivery of social services for Māori, government should give Māori opportunities to exercise mana whakahaere. This should be based on the Treaty of Waitangi principles of partnership, consultation, active protection of Māori interests and rangatiratanga.

Whānau Ora embodies concepts important to Māori and holds much potential to improve Māori wellbeing and mana whakahaere. It would be strengthened by a dedicated budget based on assessed needs for a defined population; sufficient decision rights over the budget; effective resource allocation to where resources can have the most effect; and improved accountability for results.

The question of how best to devolve responsibility to Māori is open. One process that has been used is Treaty settlement. Yet, the Treaty settlement process is not necessarily well suited to this purpose. The Government should let Māori propose arrangements within or outside the Treaty settlement process for devolved commissioning, rather than co-opt Māori groups into a process, or impose a process on them.

Data analytics, indigenous knowledge and research may hold some particular promise for Māori to achieve greater involvement in commissioning. This is because a broad investment approach opens up new possibilities for negotiating transfers of responsibility and funding.

Implementing change

Implementing the Commission's recommendations will require leadership from the Government. While a number of the recommendations devolve control over relevant decisions further from central decision makers and closer to the clients, such devolution needs to be supported by change at the centre.

The recommendations, if implemented, would constitute a significant long-term reform agenda that must be led by ministers and senior public servants, working with social services agencies and providers.

The Commission's recommendations should achieve a step up in performance of the social services system. Their implementation will require leadership from the Government, through a small Ministerial Committee for Social Services Reform. The committee should create a reform plan, oversee its implementation and adjust it in the light of experience.

The Government should establish a Transition Office to focus the effort of its agencies and to support the Ministerial Committee. The Transition Office would:

- help the Ministerial Committee to develop, refine and improve the reform plan;
- help the Ministerial Committee to identify tasks and the appropriate allocation of responsibilities for implementation;
- develop and implement a new approach to improve outcomes for the most disadvantaged New Zealanders;
- oversee implementation of reform, and publish reports on progress;
- ensure that there is adequate capability, advice and design guidance for agencies engaged in commissioning; and
- encourage continuous system improvement.

Developing a new approach for engaging with and delivering services for the most disadvantaged New Zealanders should receive high priority from the Ministerial Committee in the reform plan. The Transition Office should be tasked with leading this development.

The Government should also establish an Advisory Board to provide the Ministerial Committee with independent expert advice from a wide range of system participants.

The SSB should retain responsibility for ongoing stewardship functions requiring coordination across social services agencies such as data sharing, setting standards, improving commissioning and data-analytical capability, and delivery of the Better Public Service results. The SSB should develop a memorandum of understanding with the Transition Office, setting out their respective roles and how they will work together.

The Social Policy and Evaluation Research Unit (Superu) should have an enhanced role as an independent body responsible for monitoring, research and evaluation of the performance of the social services system.

Key recommendations for making a difference

The Commission has made a total of 89 findings and 61 recommendations. A smaller set of them hold the key to making a large, positive difference (Table 0.1). A good reform plan should prioritise implementation of these recommendations.

Table 0.1 Key recommendations

Empower the client	
Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the what, who, when, where and how of service delivery. Giving clients choice and control provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to delivering services. Most clients experience an increased level of satisfaction after moving to client-directed service models.	
Recommendation 11.2	The Government should investigate, and where appropriate trial, client-directed service models for home-based support of older people, respite services, family services, and drug and alcohol rehabilitation services.
Recommendation 11.3	The Government should pursue further extension of client choice in disability support, drawing on the lessons from Enabling Good Lives.

Introduce a new deal for the most disadvantaged New Zealanders

Recommendation 10.2

To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should devolve authority over adequate resources to providers close to clients. To be effective, this devolution would require:

- an adaptive, client-centred approach to service design;
- commissioning agencies to have responsibility for a defined population;
- commissioning agencies and providers to have clear accountability for improving client outcomes;
- commissioning agencies to have a way of prioritising the use of resources; and
- an information system to support decision making.

Recommendation 10.3

To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should assess and implement the most appropriate model of devolution. The Government should consider the District Health and Social Boards, Better Lives agency and alternative models.

Improve commissioning and contracting

Effective commissioning is fundamental to well-functioning social services. It is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way.

Recommendation 6.1

Commissioning agencies should consider a wide range of service models, and carefully select a model that best matches client characteristics, the problem faced and the outcomes sought.

Recommendation 6.6

"Fully funded" social service payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

The Treasury should develop guidance on how commissioning agencies should assess prices against this criterion.

Recommendation 6.11

Commissioning organisations should actively build the required skills, capability and knowledge base and use them to substantially lift the quality of commissioning.

Recommendation 6.14

Commissioning organisations should ensure that in-house provision is treated on a neutral basis when compared to contracting out and other service models. This requires independence in decision-making processes. In-house provision should be subject to the same transparency, performance monitoring and reporting requirements as would apply to an external provider.

Recommendation 12.2

The Government should develop a single set of up-to-date guidelines to support the recommended Rules of Sourcing for Social Services and should provide training on these guidelines to social services agencies and providers.

Recommendation 12.7

Social services agencies and non-government providers should continue to expand the use of contracting for outcomes, including the use of incentive payments, where contracting out is the best service model.

Create a system that learns and innovates and makes better use of data

A system that learns needs to have clear goals for social investments, strong incentives and flexibility to find, try out and spread new ideas, and information to support decisions by commissioning organisations, providers and clients.

Recommendation 7.2

Commissioning agencies should encourage the spread of innovation in social services by:

- using devolved service models and investment frameworks that put weight on what is valued by clients;
- improving the quality and transparency of information on service performance; and
- rewarding providers who innovate to improve their performance.

Recommendation 7.8

Commissioning organisations should ensure that the performance of each social services programme they fund is monitored and evaluated in a way that is commensurate with its scale and design. When commissioning organisations fully fund service providers to deliver government goals and commitments, they should only fund programmes whose performance can be evaluated.

Recommendation 8.2

The Social Sector Board should initiate a project on social sector data integration that includes the design of institutions and processes to progressively develop a comprehensive, wide-access, client-centred data network. This network should be accessible to commissioning organisations, providers, clients and researchers of social services.

Recommendation 9.1

Future welfare liability – the currently used proxy for social return in the Ministry of Social Development's Investment Approach – should be further refined to better reflect the wider costs and benefits of interventions.

Recommendation 9.4

The investment approach should be extended to operate at a cross-programme, cross-agency level.

Improve system stewardship

Recommendation 5.3

Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government should take responsibility for system stewardship including:

- conscious oversight of the system as a whole;
- clearly defining desired outcomes;
- monitoring overall system performance;
- prompting change when the system under-performs;
- identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change;
- setting standards and regulations;
- ensuring that data is collected, shared and used in ways that enhance system performance;
- improving capability;
- promoting an effective learning system; and
- active management of the system architecture and enabling environment.

Recommendation 14.1

A small and cohesive *Ministerial Committee for Social Services Reform*, drawn from relevant social services and central portfolios, should be responsible for leading the Government's reform of the social services system.

Recommendation 14.2

The Government should establish a Transition Office to:

- help the Ministerial Committee to develop, refine and improve a reform plan;
- help the Ministerial Committee identify tasks and the appropriate allocation of responsibilities for implementation;
- develop and implement a model that would improve outcomes for the most disadvantaged New Zealanders;
- oversee implementation of reform, and publish reports on progress;
- ensure that there is adequate capability, advice and design guidance for agencies engaged in commissioning; and
- encourage innovation and continuous system improvement.

The size of the prize

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

Benefits to individual clients

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

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

Benefits to service providers

For service providers, moving closer to a well-functioning system would mean greater clarity and certainty around government funding. It would mean less money spent on government processes and greater flexibility to tailor services to meet the needs of clients. And it would mean more scope for innovation and greater rewards from innovation.

Benefits to government

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

Benefits to the economy

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

Policy and operational changes associated with the Government's Investment Approach in the 2013/14 year resulted in an estimated reduction of $2.2 billion in FWL. Further improvements of this magnitude in other service areas are likely to be possible.

Many social services have a direct impact on the accumulation of human capital. Evidence shows that long-run human capital is an important driver of labour productivity, which in turn in is a key driver of long-run economic growth and incomes.

Benefits to wider society

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

Shared leadership is required

The reforms outlined in this report have the potential to improve the efficiency and effectiveness of New Zealand's social services system, in turn raising the wellbeing of users of social services and of citizens more generally. The complex nature of social services makes estimating the magnitude of these benefits difficult. Yet, the Commission's judgement, supported by New Zealand and international research, is that substantial economic and social gains are possible. Achieving reform will require active commitment from both government and non-government leaders across the social services system. Government has an important role as a system steward; but, for reform to succeed, it needs to collaborate with and create the conditions that unleash the potential of the many leaders across the system.

1 About this inquiry

Key points

- Social services help New Zealanders to live healthy, safe and fulfilling lives. They provide access to health services and education opportunities, and protect and support the most vulnerable. The quality of these services and access to them are crucial to the ongoing wellbeing of New Zealanders.
- The Government funds social services with the aim of improving outcomes that people value, such as better health, less crime, and more and better jobs.
- Social services are only one influence among many that determine outcomes. Other important influences include family, friends and community, work and colleagues, economic deprivation, and early physical and social experiences.
- This inquiry is about finding ways to improve individual and social wellbeing through more effective social services.
- The inquiry examines (among other things):
  - the strengths and weaknesses of current approaches to commissioning and purchasing social services;
  - the lessons learnt from recent initiatives and new approaches, in New Zealand and overseas;
  - how social services can best target and help those with high needs and at high risk of poor outcomes;
  - how to improve outcomes through better coordination of services, within and between government agencies and service providers;
  - how to take advantage of emerging opportunities offered by existing and new datasets, new information technologies and data analytics to learn about the effectiveness of different services for different groups, and to spread this learning; and
  - the institutional arrangements that would support smarter commissioning, purchasing and contracting of social services.
- The Commission was impressed by the hard work, perceptive thinking and commitment of the many people and organisations, outside and within government, who help deliver social services to those in need.
- The role of this inquiry is not to critique the performance of government agencies and service providers. Rather, its role is to make recommendations that will improve the system.
- In developing its findings and recommendations the Commission has drawn evidence from many sources, including research papers and extensive consultation. It received 246 submissions on its issues paper and draft report, and has held more than 200 face-to-face meetings.
- This report makes 89 findings and 61 recommendations. The Commission believes its recommendations can make a significant contribution to the better provision of social services, and in doing so improve the wellbeing of many of New Zealand's most disadvantaged citizens, and of the wider community.

1.1 What was the Commission asked to do?

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

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

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

Social services

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

Clients

A generic term the Commission adopts in this inquiry for all users of social services regardless of the context. For example, clients include patients, students, beneficiaries and people required by a court to undergo anger-management or drug counselling. Sometimes the client can be a group of people such as a family or whānau. It is intended to be a neutral term and not to convey any particular approach or attitude to social services or users of social services.

Commissioning

A set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. Commissioning organisations should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider-market sustainability and interactions with other services; and choose an appropriate service model.

Contestability

The characteristic of situations where providers, whether public or private, face a real prospect that alternative providers will replace them if their performance is persistently unsatisfactory.

Purchasing

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

Market for social services

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

Shape of the market

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

Long-term sustainability of the market

The continued availability of providers with the capacity and capability to supply the level and quality of services required.

Outcome

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

Result or intermediate outcome

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

This inquiry investigates both *who* is best suited to make commissioning decisions and *how* to do a good job of commissioning. The latter includes how government agencies (Crown entities and government departments) can make good choices between contracting out social services, direct government provision and other service models. The key question is what institutions and service models promote good outcomes for individuals, communities and the population as a whole.

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

What this inquiry examines

The inquiry examines (among other things):

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

What this inquiry does not examine

The scope of this inquiry is wide, but not all-encompassing. The inquiry was not:

- an evaluation of specific social policies or programmes;
- 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 made no recommendations on these matters as part of this inquiry.

1.2 What are social services?

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

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

- assistance to those with current or persistent needs;
- a safety net (or "insurance") for circumstances largely beyond a person's control;
- opportunities for individual development that enable people to achieve their potential; and
- protection of New Zealanders from, or at least minimising, the consequences of the anti-social behaviour of others.

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

Social services vary significantly

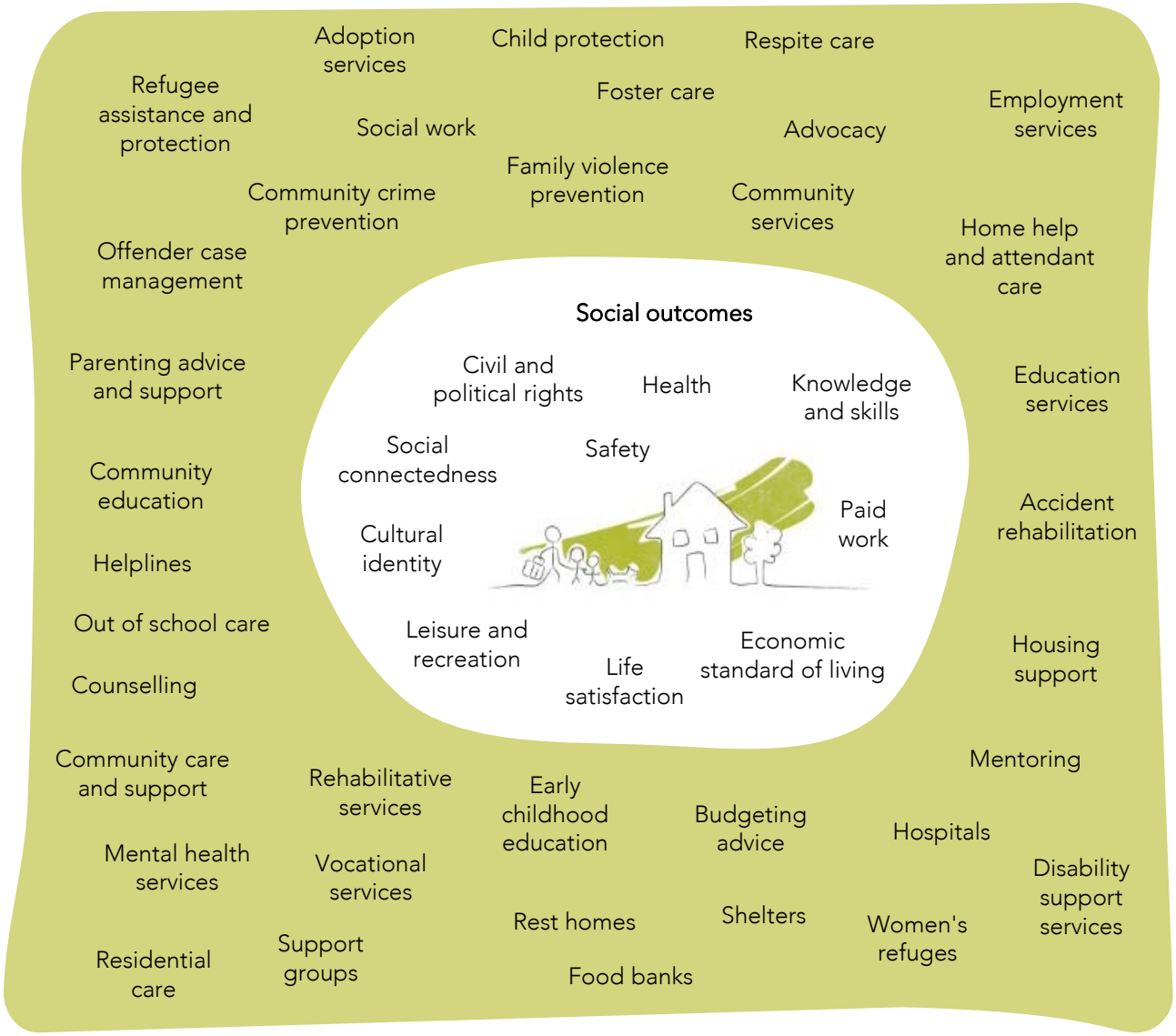
The Commission has taken a broad view of social services, because of the obvious inter-relationships between health, education, social development, and indeed justice services. This places the Commission in a relatively unique position to look across those services. However, not all submitters were comfortable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

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

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

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

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



People use social services in different ways throughout their lives

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

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

1.3 What does a well-functioning social services system look like?

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

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

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

Importantly, these improvements are about being more effective rather than working harder or accepting lower wages.

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

New Zealanders

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

They want social services to be available to meet their current or future needs. They want the services to provide effective care of the most disadvantaged. 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 healthy, safe, self-sufficient and fulfilling lives.

In general, those clients 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 providers of social services and with government agencies.

Clients with high and complex needs want providers and agencies to cooperate and to deliver services seamlessly. Yet they also want a say in any sharing of personal information that might better enable such cooperation. And some of these clients want to make their own choices about what services they receive, and how and when they receive them.

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

Providers of social services

Providers of social services want to get on with the job of helping their clients. Many 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 the 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 providers of social services feel that they are closer to their clients and the communities in which they operate – that providers have a better understanding of their clients' needs than do the funders of providers. Providers of social services want the flexibility to adapt their services to the specific needs of their clients and to better reflect the overall mission of their organisation.

Providers of social services 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 services agencies

Government agencies fund and directly provide many social services. Agencies recognise that in some cases they lack the information, relationships and capability to directly deliver services, and so they arrange for external providers to supply them.

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

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

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

The Government

The Government is the agent of all New Zealanders collectively, and the closest thing to an institution representing "society" or "community" at the national level. The Government 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 services clients span the boundaries of its agencies, the Government seeks a high degree of inter-agency cooperation.

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

1.4 The Commission's approach

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

- more than 200 meetings with individuals and organisations;
- visits to seven New Zealand regions, Australia and the United Kingdom;
- 246 submissions received on its issues paper and draft report;
- government agency reports and data;
- engagement with the Ministry of Social Development (MSD); the Ministry of Health; the Treasury; the Ministry of Business, Innovation and Employment; the Ministry of Education; Te Puni Kōkiri; the Ministry of Justice; the State Services Commission; Superu and several District Health Boards.
- commissioned research and reviews;
- previous inquiries into, and reviews of, social services;
- relevant academic and other research; and
- 15 conferences on aspects of providing social services in New Zealand.

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

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

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

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

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

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

The Commission has made 89 findings and 61 recommendations. The Overview identifies the most important recommendations.

1.5 Responses to the inquiry

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

Box 1.2 **Differing views on the inquiry**

> [W]e welcome and endorse the generous description by the Productivity Commission of the goals and values of social policy in New Zealand in Chapter 1 of the Issues Paper. We welcome the acknowledgement that there is a broad consensus on what government funded social services should be providing… (Carers NZ, sub. 71, p. 1)
>
> We welcome the whole system view of the report and agree fundamental reform is required. (Every Child Counts, sub. DR166, p. 1)
>
> Generally there was dissatisfaction with the title [More effective social services]. There was an assumption that the title inferred that most social services were not effective. It was not clear that the efficiency mentioned was also about how Government worked in this space. There was a feeling that the title implied inefficiency in the sector as a broad issue. (Community Networks Aotearoa, sub. 31, p. 2)
>
> The Social Sector Board's overarching position is that we support the goals and objectives of the Inquiry and see them as providing good strategic direction in delivering on Government's focus and objective for customer-centred design of services in the social sector. The Social Sector Board

considers that the draft report takes an important first step towards more effective social services. (Social Sector Board, sub. DR225, p. 6)

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

Mind and Body Consultants Ltd commends the comprehensive inquiry into More Effective Social Services. (Mind and Body, sub. DR139, p. 1)

NZ society has a long history of social democracy, irrespective of parties and power. The neoliberal rhetoric of the Productivity Commission's Report works directly against this. (OMEP Aotearoa, sub. DR148, p. 8)

The 21st Century … can be a beginning of a new epoch of improvement, because the writer believes it to be possible as indicated in The Productivity Commissioners More effective social services: Draft report. (Tom Adson, sub. DR239, p. 3)

1.6 Guide to this report

This report is divided into three parts:

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

Figure 1.2 summarises the individual chapters and appendices in this report.

During the inquiry the Commission came to the view that the issues for Māori were of sufficient significance to justify a separate chapter. Chapter 13, The Māori Dimension, captures the essence of what the Commission learnt was important to and for Māori in this context. This does not mean that other chapters are not relevant for Māori.

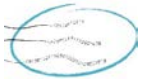
Pasifika is another important group in New Zealand. While no chapter is dedicated to Pasifika issues, the report refers to Pasifika at various points. Many recommendations are highly relevant to improving outcomes for Pasifika people in New Zealand, particularly those who suffer significant deprivation.

Figure 1.2 Guide to individual chapters and appendices

Part One – What the Commission has observed

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

Part Two – What is needed for improvement

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

Part Three – Making it happen

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

Appendices

A. Public consultation		Lists the people and organisations who met with the Commission or provided submissions to the inquiry.
B. Employment services		Case study of New Zealand and Australian systems for delivering employment services. The systems differ: in New Zealand a government in-house provider delivers them; the Australian Government outsources them using a managed market. New Zealand uses data and analytics in a sophisticated way to improve service effectiveness.
C. Whānau Ora		Case study of Whānau Ora as a relatively new approach to the commissioning and delivery of services, particularly to Māori and Pasifika families. Of interest is the emphasis on families determining their own goals and the means to achieve them, assisted by "navigators". Another feature is the use of non-government commissioning agencies.
D. Services for people with disabilities		Case study of the ways that the government commissions and delivers services for people with disabilities. The study examines the Enabling Good Lives trial and the Ministry of Health's Individualised Funding initiative as examples of client-directed budgets.
E. Home-based support for older people		Case study of services and support for home-based care of the aged, how well they work, the issue of service integration, and the lessons that can be drawn (eg, how home-based services can reduce the need for hospital admissions and residential care).
F. The economics of social services		Reviews the microeconomics literature and picks out those parts that throw light on the economics of social services. The parts include contracting under uncertainty and how different types of incentives affect service performance. While drawing on various perspectives and frameworks, the inquiry aims to be grounded in sound microeconomics.
G. Machinery of government and cross-agency coordination groups		A description of government decision-making and funding arrangements, and a table showing the major cross-agency governance and oversight groups for the social services, as at July 2015.

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

Part One: What the Commission has observed

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

All three chapters are of interest in their own right. Yet they are also important preparation for Part Two. Part Two develops and recommends reforms of the social services system that are soundly based on the Part One findings about how the system currently works, and experience with new approaches.

2 Social services in New Zealand

Key points

- Central government spends about $34 billion a year on health, education and other social services. Most of this spending goes to universities, hospitals, schools and frontline departments, with the rest used to purchase services from non-government organisations. For example, 20% of the Ministry of Social Development's (MSD) 2014/15 social services budget was for contracted services.[6]
- A mix of government, for-profit and not-for-profit providers, delivers social services. History, population make-up and geography have all influenced the landscape of service providers and the arrangements under which government funds services.
- Numerous government reviews over the past 20 years have identified remarkably consistent issues and proposed similarly consistent solutions.
- The Commission's broad observations are that the social services system has a number of positive attributes. These include a willingness in government agencies to improve the system, a highly committed workforce, pockets of successful innovation in the use of data management and analytics, and the wide acknowledgement within government of the need to improve agency coordination.
- Improving social outcomes will require that the following weaknesses in the system are addressed:
  - government agencies and processes are not well placed to deal with complex and inter-dependent problems encountered by many of New Zealand's most disadvantaged individuals and families;
  - government agencies have little reliable information about which services and interventions work well, and which do not;
  - transaction costs are generally higher than necessary;
  - government agencies delivering social services are often poorly coordinated;
  - tailoring services to the individual needs of clients is made difficult by tight central control;
  - providers of social services face poor incentives to innovate; and
  - opportunities are missed to intervene early to avoid the escalation of problems.
- The Commission has observed that a large stock of existing social services continue to be funded and run in much the same way as in past decades, with little evaluation of their impact or cost effectiveness. A flow of new initiatives attracts much attention, but has little effect on the existing stock or on outcomes.
- Addressing weaknesses in the system is important in view of persistent poor social outcomes, increasing demand for services, and the rising costs of delivering services. New Zealand is not the only country facing these pressures, and there is much to learn from new approaches, domestically and overseas.

This chapter provides an overview of the social services system in New Zealand. It gives a brief history of government involvement in the provision of social services before presenting data on current levels of

[6] Excluding income support and benefit payments.

expenditure in the area. The chapter then looks more closely at the processes and rules that shape the way government agencies deliver and fund social services, before outlining the Commission's observations on the strengths and weaknesses of the system.[7]

2.1 Improving wellbeing through social services

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

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

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

2.2 A brief history of government involvement in social services

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

New Zealand was an early adopter of state-funded social services

In the 19th century, countries such as Britain relied on a lively voluntary sector and mutual-aid societies to fund and provide key social services. New Zealand on the other hand had limited philanthropic resources to draw on, and many settlers had no family networks to turn to for support (Easton, 2011). Church organisations provided some assistance to the poor during the early years of settlement but, in general, assisted migration involved an implicit undertaking from the authorities (the New Zealand Company or government) to help migrants during periods of need. As a result, New Zealand was an early adopter of state-funded, state-provided, social services. For example, Sanders et al. (2008) noted:

> The state assumed responsibility for hospital services and for education from an early stage in the colony's history, with the establishment of four state hospitals for the destitute in 1846, and a national system of free, compulsory and secular primary school education from 1877. (p. 24)

Voluntary organisations emerged in response to growing need

The privations of the economic depression in the late 19th century, the First World War, and the Great Depression of the 1930s saw a growth in the provision of social services by not-for-profit (NFP) organisations funded largely by charitable donations. Patriotic societies formed to support returned soldiers and their dependants. Charitable organisations emerged to help the influx of refugees from Europe. And church groups expanded their services to support the unemployed and destitute. Many NFPs developed strong provincial connections, reflecting the geographic distribution of New Zealand population at the time.

Government provision of social services grew between 1935 and 1950, during which time government policies effectively nationalised parts of the charitable sector (Fries, 2001). The passing of the Social Security Act 1938 marked a significant point in the history of social service provision in New Zealand. The Act introduced a free-at-the-point-of-use health system and an array of new welfare benefits. These measures were financed by a tax surcharge of one shilling in the pound, or 5%. The Act also relaxed qualifying conditions and created new classes of benefits such as family allowances (Ministry for Culture and Heritage, 2015).

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

The 1950s brought greater awareness of the opportunities to improve social outcomes for segments of the New Zealand population. This saw the expansion of NFP service providers and the emergence of new community organisations such as IHC and Marriage Guidance.

Government attached few conditions to NFP funding

The 1950s also saw growth in both direct government provision of social services and support for NFP providers. This support occurred largely through grants, training, and subsidised rent and office costs. Government attached few conditions to its support, leaving NFPs free to pursue their individual mission and goals (O'Brien, Sanders & Tennant, 2009).

The full-employment economy of the 1950s and early 1960s gave way to a period of economic and social stress and a greater focus on efficiency in public spending.

In 1967, government funding of social service NFPs was only around $4 million or 0.7% of total government expenditure on social services. Services provided by NFPs were largely in addition to government-provided services or filled niche areas of need.

Changing relationships between the state and non-government providers

The 1970s saw the strengthening of the Māori political movement and Māori seeking self-determination. Over the next two decades, this led to a new focus on the relationship between Māori and the Crown, processes to settle Treaty of Waitangi claims, and new forms of social services provision designed, governed and operated by Māori – specifically in the area of health, employment and education (Chapter 13).

In the late 1980s and the 1990s, government support for NFPs shifted from being predominately grant-based funding to contract-based funding. This shift changed the nature of the relationship between NFPs and government. In many instances, NFPs were no longer providing services that were supplementary to those provided by government; they were providing services *on behalf of government*. During this period, the use of tendering for social services contracts became common and the sustainability of many NFPs became closely linked to winning government contracts (Cordery & Halford, 2010).

The movement to a contractual relationship between government and NFPs was often accompanied by tightly specified services and reporting obligations. The tight specification of contracts limited the flexibility of NFPs to shape the services provided to align with their own vision or philosophy (Garlick, 2012).

2.3 Government expenditure on social services

Central government spends about $34 billion a year on health, education and other social services. Most of this spending is on services provided directly by Crown entities, such as schools, universities and District Health Boards (DHBs). Government agencies use the rest to provide services directly or to pay non-government providers for supplying services. For example, MSD had around 3 700 social services contracts with some 2 155 providers in the 2014/15 financial year.[8]

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

Diversity also exists in the organisations that deliver social services. Non-government providers vary greatly in terms of:

- whether they are for-profit (FP) or NFP organisations;
- the extent they are staffed by employed staff or volunteers;
- the social issue or population segment on which the organisation centres (eg, services for disabled people, family violence, youth offenders);

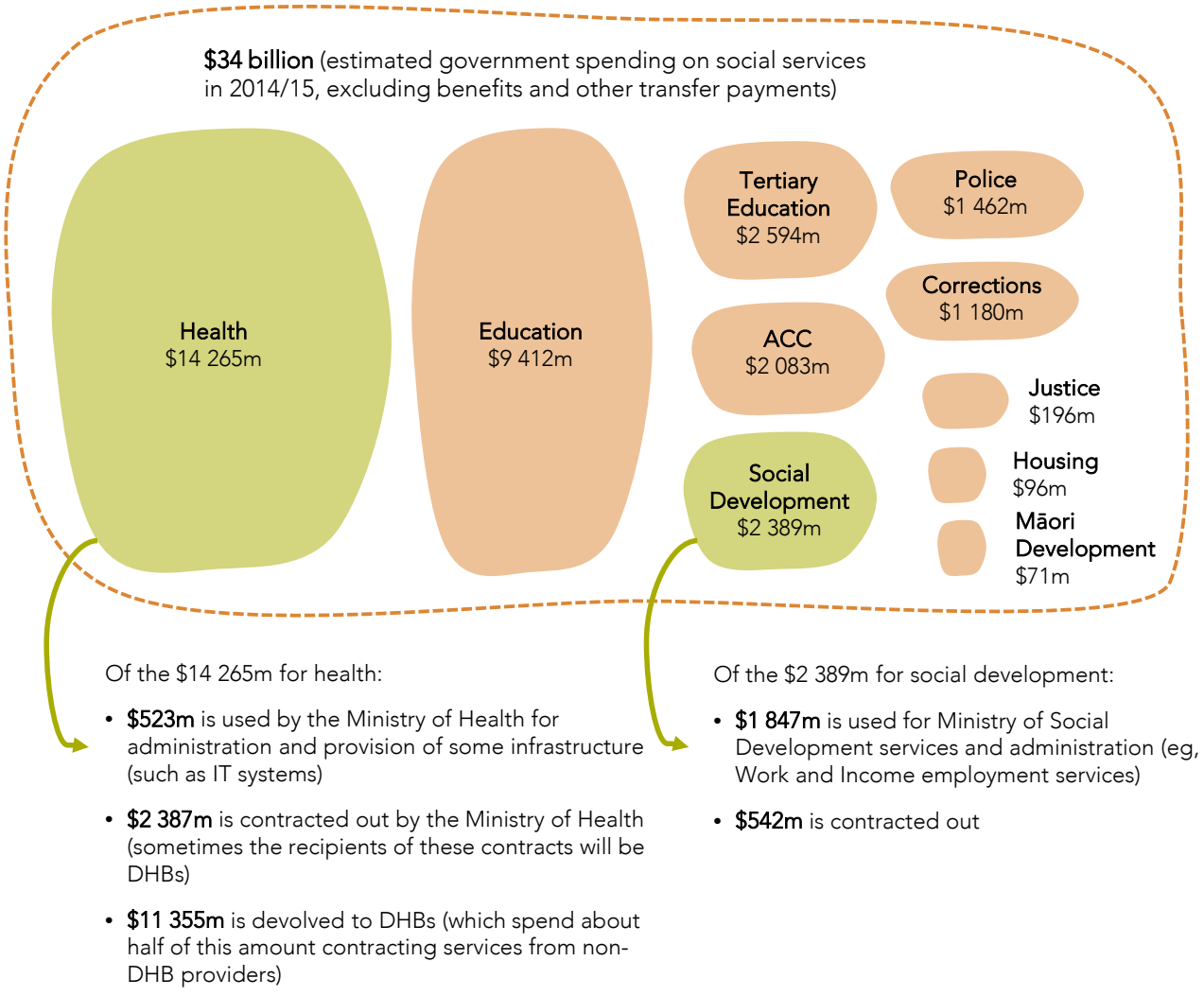
[8] Productivity Commission estimates based on data supplied by MSD.

- the geographic area that they cover;
- the cultural communities they service;
- the breadth of services they deliver; and
- the strength of their relationship with clients.

The Commission has found no consolidated data on government purchases of social services from non-government providers. However, as an indication, 20% of MSD's 2014/15 social services budget was for contracted-out services.[9]

DHBs received about 80% of Vote Health expenditure in 2014/15. The Ministry of Health (MoH) uses around 17% of Vote Health to contract out services. Some of these contracts are with DHBs (Figure 2.1).

Figure 2.1 Government expenditure on social services, 2014/15

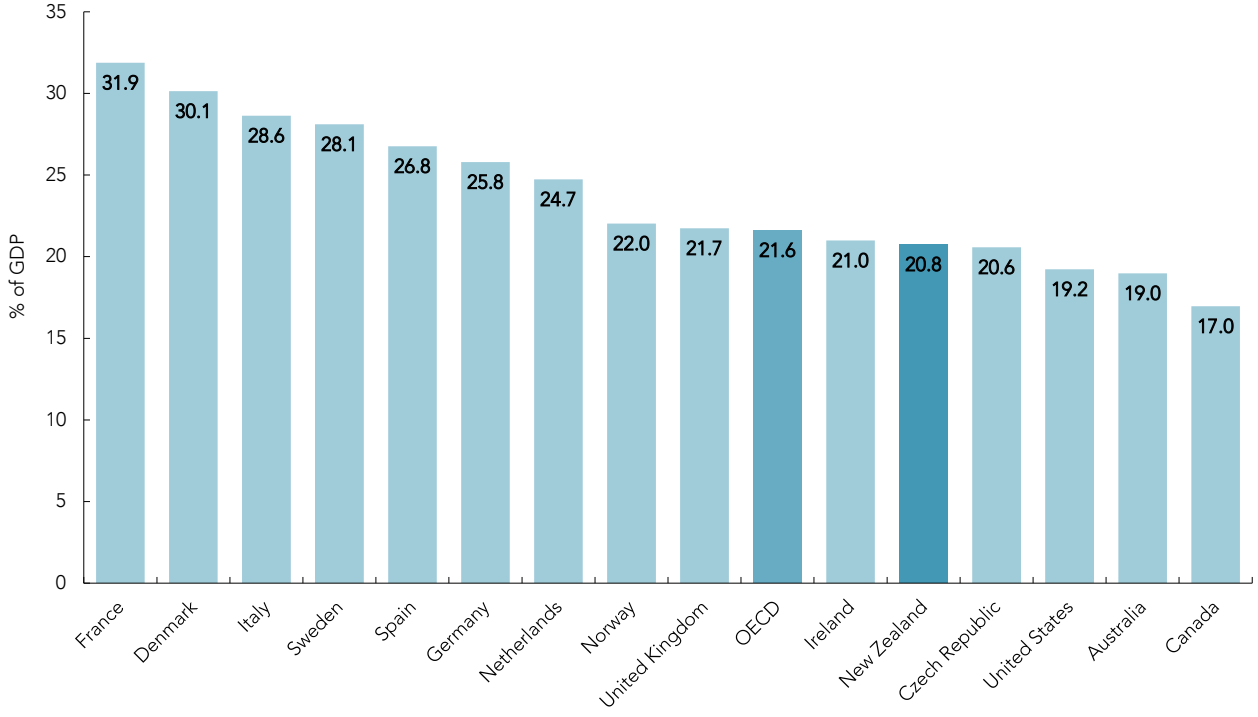


Source: Budget 2014 data; Productivity Commission.

In total, Government spending on benefit payments and social services is close to the OECD average, and similar to commonly used comparator countries such as the United Kingdom and Australia (Figure 2.2).

[9] Excluding income support and benefit payments.

Figure 2.2 Total government social spending (including transfers) as a percentage of GDP, 2014



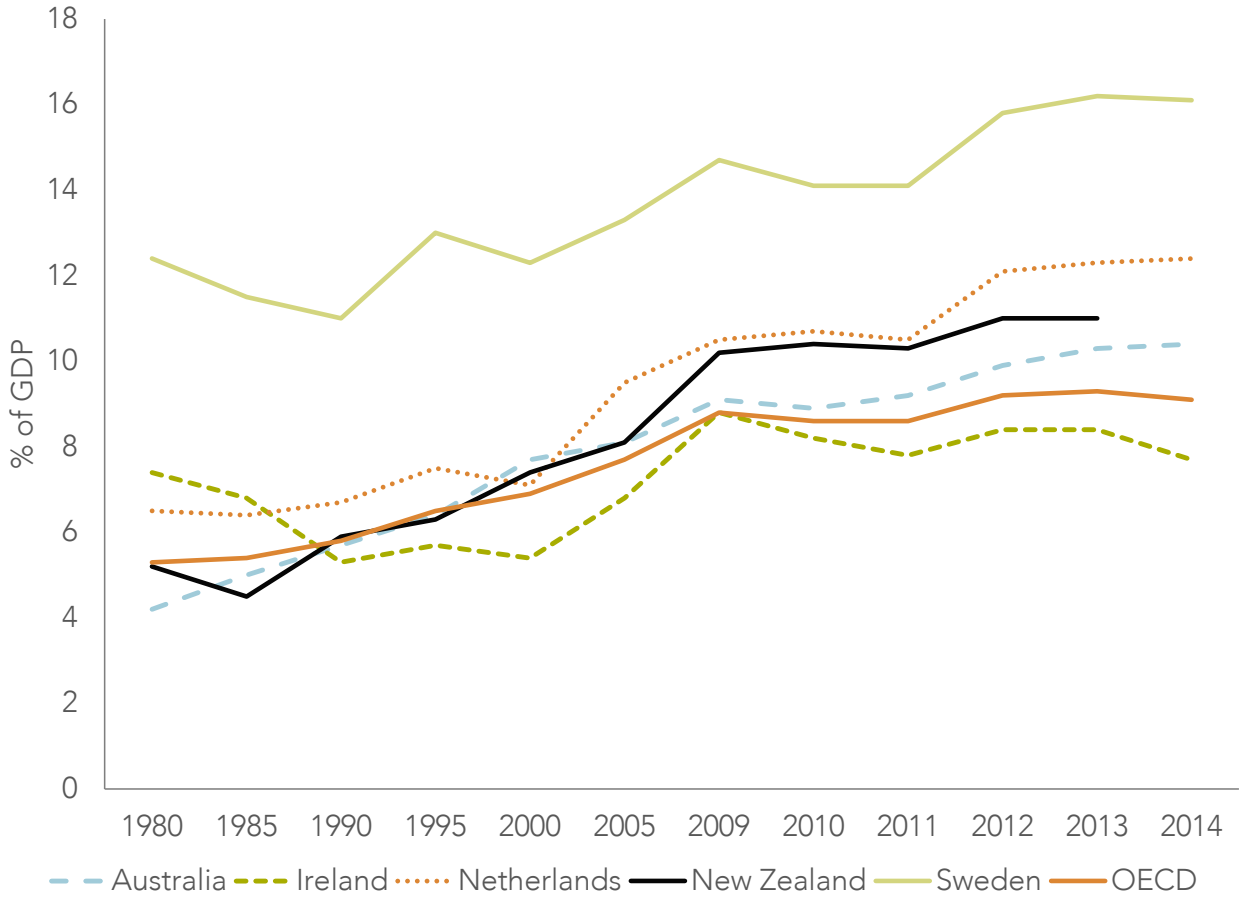
Source: OECD Social Expenditure Database, n.d.

Notes:

1. Data for New Zealand are OECD estimates. Data represents benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare. Total spending includes both the payment of cash benefits and the provision of services. Data covers the main social policy areas such as income and care support for the elderly, health spending, family support, labour market programmes, unemployment benefits and housing.

Figure 2.3 presents data on government expenditure on social services as a percentage of Gross Domestic Product (GDP) between 1980 and 2014. The Figure illustrates that, like other OECD countries, government spending on social services in New Zealand has increased considerably over the past 35 years.

Figure 2.3 Government spending on social services (excluding transfers) as a percentage of GDP, 1980–2014



Source: OECD Social Expenditure Database, n.d.

Notes:

1. Data for all years available in the OECD SOCX database (five-yearly data from 1980 to 2009; yearly data from 2009 to 2014). Data represent the spending on social services (ie, total government expenditure excluding transfer payments). Data covers the main social policy areas including support for the elderly, health spending, family support, labour market programmes, unemployment benefits and housing.

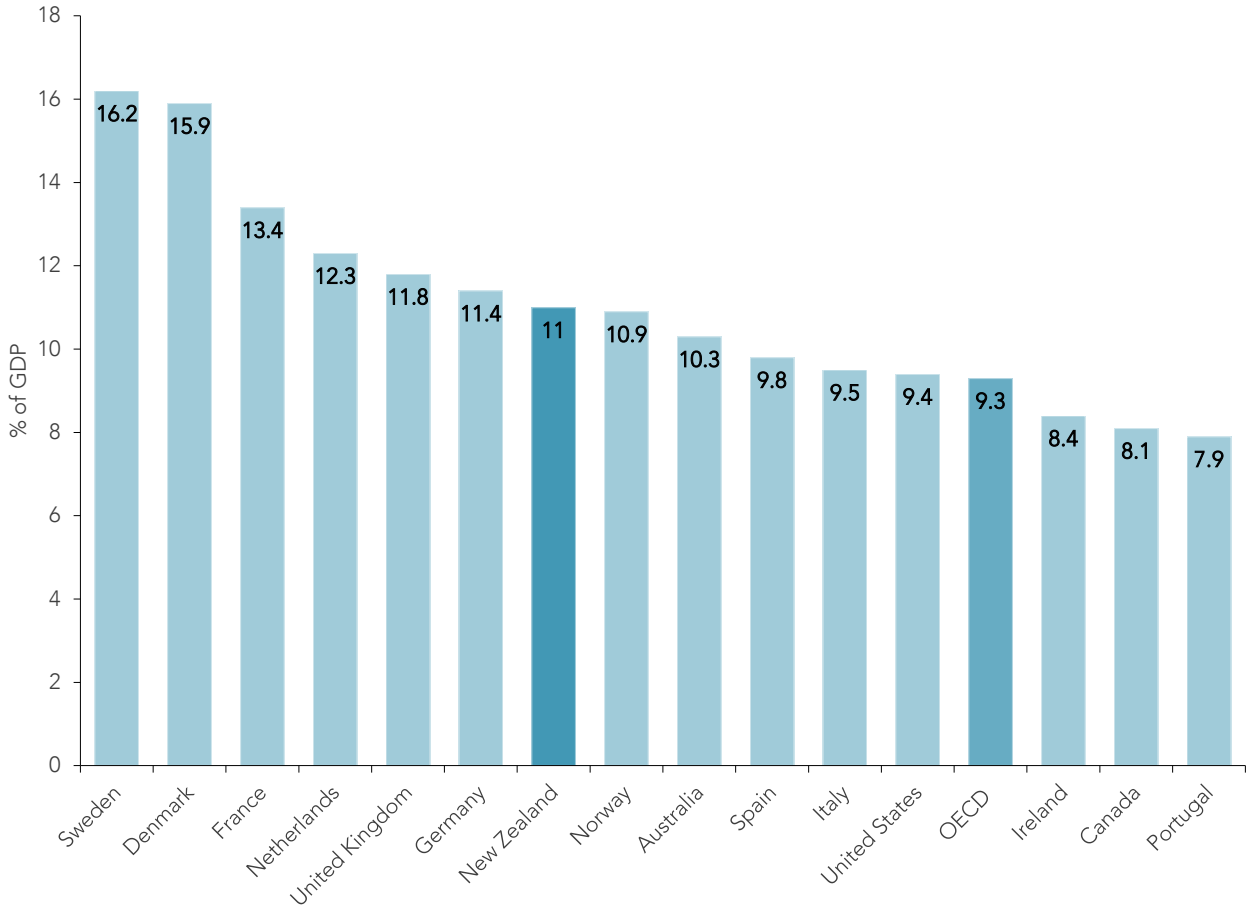
Government social spending is heavily influenced by the political economy of the various countries. For example, the United States has traditionally placed a greater emphasis on private funding of education and healthcare than most OECD countries. New Zealand, on the other hand, has more of a tradition of state-funded provision.

Transfers such as benefit payments are outside the Commission's terms of reference. Figure 2.4 presents OECD data on government expenditure on social services as a percentage of GDP (ie, total government spending less transfer payments).[10] The Figure illustrates that expenditure in New Zealand, as a percentage of GDP, was higher than the OECD average in 2013.[11] Public expenditure per capita was also higher than comparator countries such as Australia and Canada, but was lower than the United Kingdom.

[10] The OECD uses the term "benefits in kind" to refer to services received by citizens and paid for by the government (such as health and education services) as opposed to benefit payments in the form of cash transfers to residents.

[11] 2013 is the latest year for which data is available for all countries.

Figure 2.4 Government spending on social services (excluding transfers) as a percentage of GDP, 2013



Source: OECD Social Expenditure Database, n.d.

Notes:

1. Data represent the spending on social services (ie, total government expenditure excluding transfer payments). Data covers the main social policy areas including support for the elderly, health spending, family support, labour market programmes, unemployment benefits and housing.

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

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

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

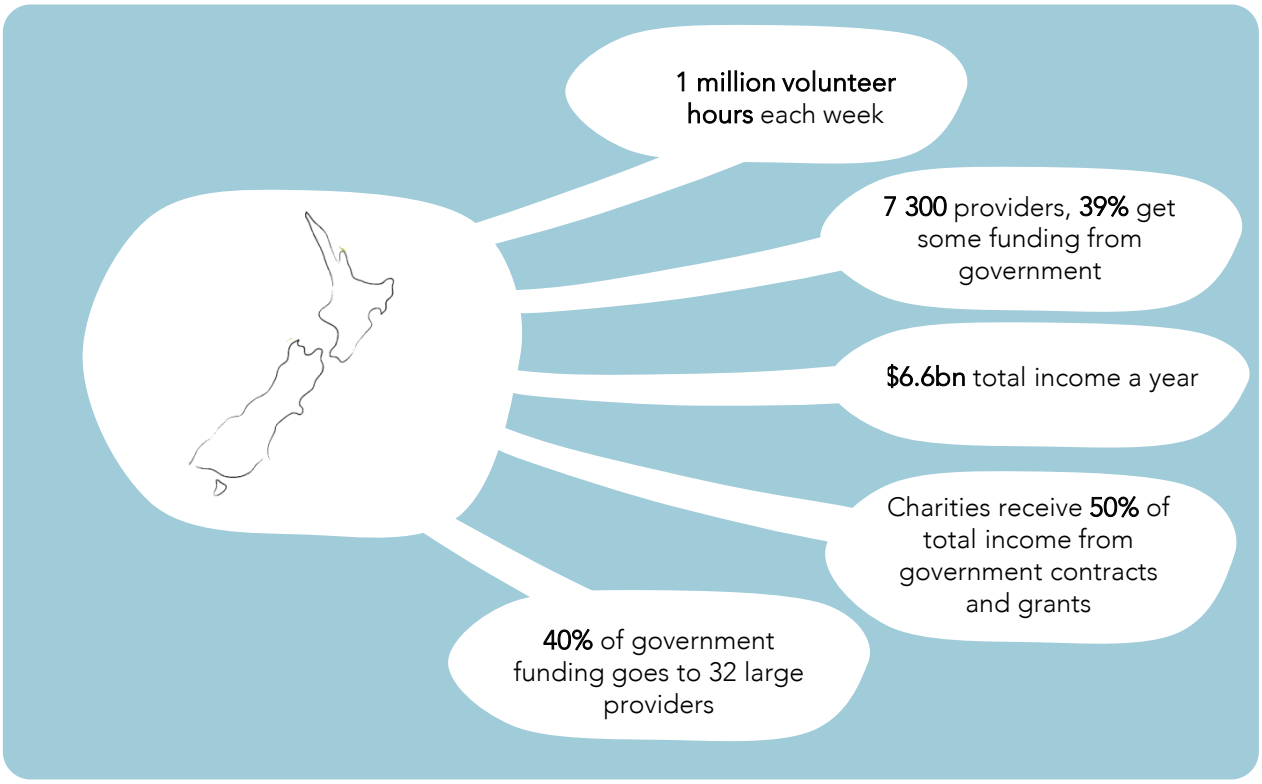
The Charities Register shows government funding for charitable social services providers was about $3.3 billion in 2013. Data from the register for 2013 is summarised in Figure 2.5.

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

The Charities Register also shows that, in total, charities delivering social services get about 50% of their income from non-government sources.[12] This is a mix of service trading income, donations, grants and other sources.

Many non-profit organisations use volunteers to provide social services. Volunteers contributed more than one million hours a week to charities delivering social services in New Zealand.[13] This represents an input of more than $760 million a year if costed at the minimum wage. The importance of volunteers to the operation of the social services system was a common theme in submissions to the inquiry (Box 2.1).

Figure 2.5 Charity service providers, 2013



Source: Charities Register.

Box 2.1 **Submissions on importance of volunteers**

> Volunteers are hugely important in providing social services, particularly in those areas of service delivery that focus on building strength and resilience among families and communities. This greater resilience has been found to play a significant role in mitigating harm, and promoting positive outcomes among those at risk. (The Māori Reference Group for Action on Violence within Families, sub. 120, p. 6)
>
> The majority of social services are provided by non-government organisations (NGOs) with very limited operating budgets. Unpaid volunteers ensure these services, many of them essential to the welfare of communities, continue year after year. (Age Concern New Zealand, sub. 100, p. 3)
>
> We could not do what we do without the volunteers – many of whom have been clients of Delta's community services and who sometimes have ongoing issues and needs of their own. (Delta Community Support Trust, sub. 13, p. 2)
>
> Volunteers are a bridge between service users. They are embedded within communities, they do help out of a real interest in the area and build networks and experiences in those interest areas. They truly represent the communities we work in, and can make valuable contributions to understanding best ways to address need – often in a way that paid professionals may not.

[12] 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 to provide context.

[13] Based on the most recent Annual Returns filed with the Charities Services. For most charities, this will be the 2013/14 financial year.

> Volunteering promotes participation through activities and advocacy, can lead to a more dynamic community by enhancing [the] work of social services. (Volunteering New Zealand, sub. 86, p. 5)
>
> Lifeline works with volunteers in many of its service offerings and this aligns with the work of Dr Brian Mishara, University of Quebec, whose research has found that volunteers can be as effective as paid staff, due to the empathy factor. Lifeline supports moves to engage and integrate volunteers with paid staff to provide a holistic, empathetic service that supports service users. (Lifeline Aotearoa, sub. DR170, p. 3)

2.4 The social services system

This inquiry often focuses on the totality of social services as a system (rather than specific services, programmes or providers). This encourages a deeper understanding of the factors that shape the outcomes achieved from government-funded services because it offers a whole-picture view of other important influences on outcomes.

The promoters, funders, providers and users of social services are all parts of the broader social services system – linked together by formal and informal rules, and by various relationships. The outcomes that emerge from the social services system are the result of interactions between the different parts of the system. Government has a large and important influence on these interactions, but other players may together exert an even larger influence. Other important players in the system include family/whānau, friends, non-government providers, philanthropic organisations, volunteers, and community-based bodies such as churches (Figure 2.6).

For example, government support for older people living at home is only one of several possible sources of assistance. Many older people organise and fund their own support. Family members help each other around the home. Friends and neighbours provide support and company, "checking in" to see that everything is okay. Community organisations and volunteers provide services not funded by government. Although government support can be important, especially for very frail older people or people with few family and friends, it is only part of the picture.[14]

Barnardos highlighted that broader networks of support often play a strong role in achieving positive client outcomes:

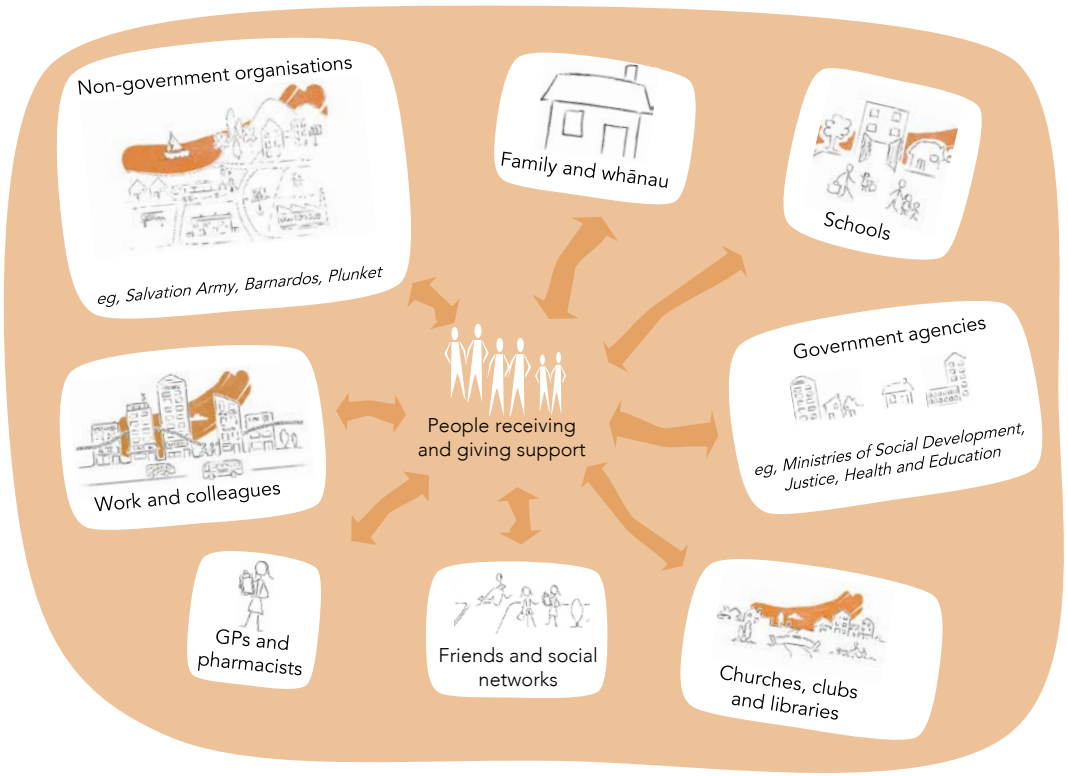
> It may be useful to consider the following analogy. For someone to recover from heart disease they are likely to need highly skilled and focused attention from surgeons, dieticians, physiotherapists and pharmacists. Without this specialist care they may well die. However in order to sustain their health they are also going to need a partner that cooks healthier food, friends that encourage them to exercise, a local chemist that notices when they don't come in and/or are getting the wrong medications, a GP who is accessible and has time to listen to them, relationships (to family, whānau, church, work, marae) that give them a sense of purpose and so on. It is not the role of the surgeon or physiotherapist to make sure that this person has supportive relationships and a sense of purpose. However, if the system of specialist medical intervention has no acknowledgement or support for the total picture of care that is needed then there is a high chance that this person will receive expensive medical treatment that makes little difference to their long term health and wellbeing.
>
> The same analogy holds true for families that are trying to deal with complex parenting problems, chaotic lives or issues of family violence. Seeing the whole picture matters. (sub. 12, p. 6)

Plunket also noted the importance of support networks:

> We note the Commission's draft report examines the delivery of social services separately from the context of families' and communities' economic and social well-being. In our experience, when families are well-resourced, and supported by their networks to parent effectively and to undertake paid work, social services are less frequently required, and able to be more effective when accessed. (sub. DR169, p. 1)

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

Figure 2.6 Government social services are one influence among many



The history of social services in New Zealand illustrates that the line between the role of the state and the role of these broader networks of support has changed through time (section 2.2). The line has shifted in response to external shocks (eg, wars and depressions) and changing views of where, when and how the state should be involved in delivering social services.

This inquiry does not try to establish the "right" balance between government support and other sources of support.

Rather, the inquiry is concerned with identifying changes in government institutions, processes and capabilities that would improve the outcomes from publically funded social services – including those directly supplied by government agencies. The next section provides an overview of some of these processes.

Social services and the machinery of government

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

Like most government expenditure, commissioning and funding of services take place within the context of the machinery of government. Generally speaking, the process follows six steps.

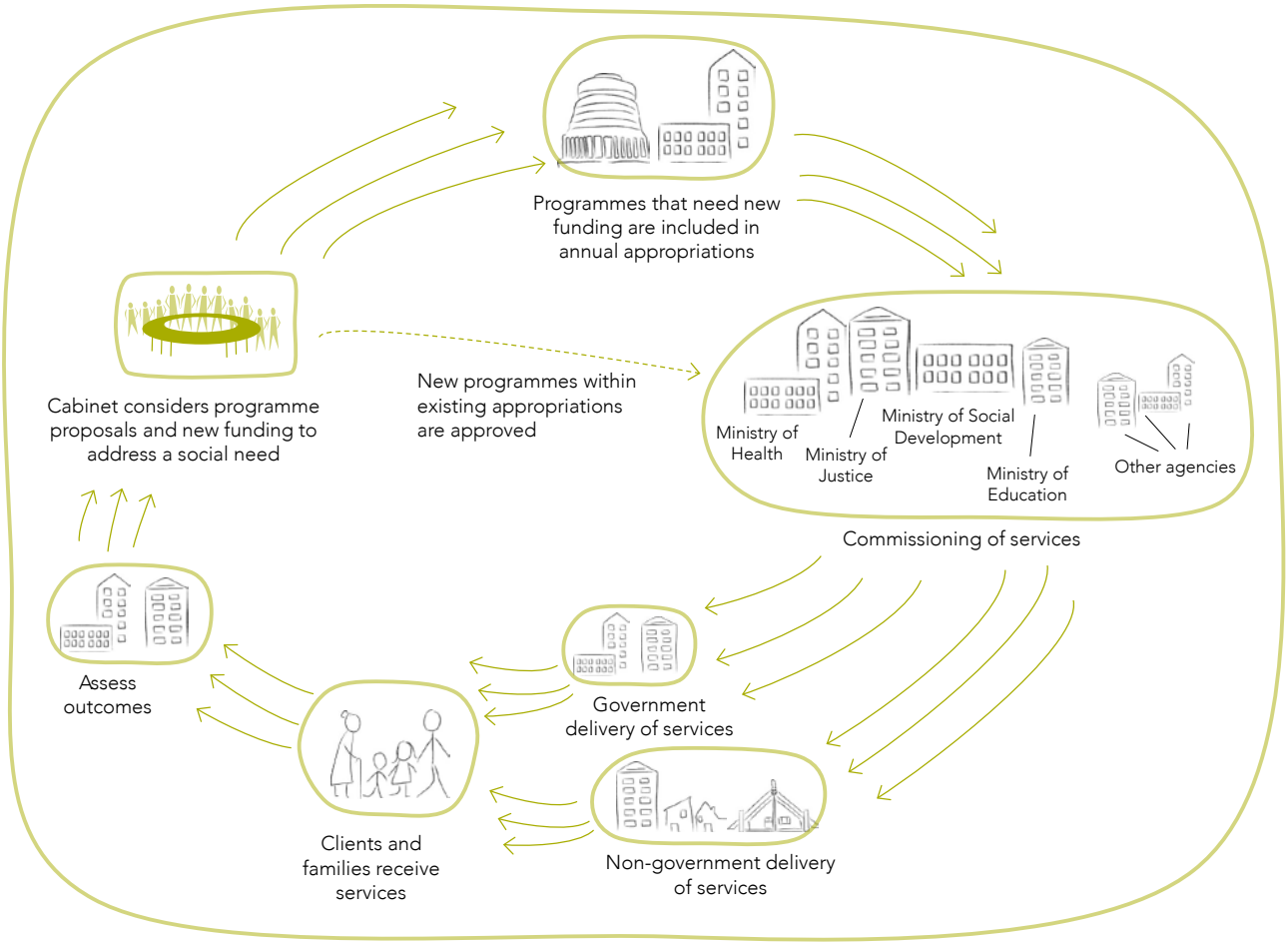
1. The public, ministers or officials identify the need for a social service.
2. Officials advise ministers on how to address the need. Ministers consider the advice of officials and propose a programme and budget to Cabinet.
3. Cabinet approves the proposal. If an existing appropriation covers the programme, the responsible minister instructs their support agency to implement it. If the programme cannot be funded under an existing appropriation, it is added to the annual Appropriations Bill.
4. Parliament authorises money for the programme (if required) and ministers allocate responsibility for its implementation to a government agency.
5. A government agency or non-government provider delivers the service.

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

Every step of this process is subject to legislative and operational requirements (such as Cabinet directives and Treasury Instructions). These institutional "rules of the game" are designed to achieve effective democratic government through placing boundaries around the power of politicians and government officials and by establishing strict lines of budget and political accountability. Figure 2.7 summarises the steps after the Government identifies a social need.

Strong lines of vertical accountability are codified through legislation – including the Constitution Act 1986, the Public Finance Act 1989, the State Sector Act 1988 and the Public Audit Act 2001. Appendix G provides a detailed description of the processes of government in the context of social services.

Figure 2.7 Government funding and commissioning process



The Treaty of Waitangi

The Treaty of Waitangi sets an important context for the commissioning, design and delivery of social services and wellbeing. The Treaty is an agreement signed in 1840 between the British Crown and more than 500 Māori chiefs or rangatira and is one of New Zealand's key founding documents. Treaty partners signed two versions of the Treaty, one in Māori and one in English, and both versions are taken into consideration for the purposes of jurisprudence. The Treaty and its principles are widely recognised both inside and outside government as forming the basis of the enduring relationship between Māori and the Crown.

Many inquiry participants told the Commission how important the Treaty was in the context of social services and more broadly. In their submission Ngāi Tahu stated:

> Te Rūnanga o Ngāi Tahu has an expectation that the Crown will honour Te Tiriti o Waitangi (the Treaty) and principles upon which the Treaty is founded. (sub. 162, p. 9)

Addressing Māori grievances against the Crown has been a key part of the relationship over the last 40 years. The Treaty of Waitangi Act 1975 established the Waitangi Tribunal to inquire into claims that the

Crown has breached the principles of the Treaty, causing prejudice to Māori (s 6(2)). The Tribunal has been pivotal in hearing the grievances of Māori and facilitating redress for historical Treaty breaches.

Chapter 13 examines the Māori dimension to social services.

2.5 Social services – a client's perspective

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

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

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

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

Successive governments have been aware of the confusing nature of the system for some time. For example, a 2003 report on the Family Start Process noted:

> Community stakeholder groups found the referral criteria confusing. They considered that it complicated assessments of families' eligibility, and some believed that there were across-sites inconsistencies in relation to thresholds applied to specific criteria. (MSD, 2003, p. 58)

Similarly, a report on the District Truancy Service conducted for the Ministry of Education in 2009 commented:

> Truancy services have established strong community networks over the years and this allows them easy access to information to support their students and their families. However, the roles and responsibilities of these agencies often overlap causing confusion and administrative inefficiencies which needs to be addressed. (MartinJenkins, 2009, p. 12)

Box 2.2 provides a case study supplied by The People's Project that illustrates the difficulties that people who need assistance can have when trying to engage with government institutions.[15]

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

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

> Chas wandered shyly through the doors of the office late Friday afternoon, lost, and dazed. He was a young lad, fresh-faced, with a recent black eye. He stood in the middle of the doorway, coyly looking out and up from under a too-long fringe. In his youthful innocence he looked out-of-place with the other Homeless in the office.
>
> "I just came from the bakery", he said pointing next door. "They said you might help me". He was soft-spoken and obviously uncomfortable talking to an adult. Chas had been at the bakery asking for a crust of bread or anything they would be able to give him. He was hungry and exhausted. He hadn't eaten all day. The bakery had given him a left-over from the day's trading, and sent him to The Peoples Project. We found him a left-over apple and chocolate in the fridge which he devoured. He wolfed down a second milo.

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

He had just come from a two hour meeting at [Work and Income New Zealand] WINZ, trying to establish his benefit as he had no money. WINZ had done the majority of the linking, but had told Chas he needed to go to their Youth Services office in Dinsdale. Chas had been told he needed to be sighted by a WINZ officer there and to fill out a form that only the Dinsdale office had. Chas had absolutely no money for a bus fare, and was ravenously hungry and dazed from his two hour meeting at WINZ. The Dinsdale office was 5 kilometres away and he had just spent the night on the street, where he had got into a fight. Making the trip to Dinsdale was off the radar for him. It was just too hard.

Chas said he had been staying on the streets, as well as couch surfing between friend's places and his half-sisters. They all had their own lives, he told us. He'd outstayed his welcome. He had been homeless he thought since October 2014. Chas told us he had aged-out of CYF's care on the day that he turned 17. Going back to his mother's place was out of the question. Going to his father's was also not an option at present, for safety reasons. Chas said he had been in CYF's care from the age of three. Going back to stay with any of his foster care-givers was also not an option for him, he told us.

Initially, the Project team wondered how we would be able to help someone as young as Chas. The team did not think the Night Shelter would be appropriate for someone so young. There was a hardened crew at the Shelter and Chas was vulnerable. He was barely old enough to sign the TPP consent form.

The Project team completed the necessary WINZ agency linking with Chas and took it down to WINZ. We asked WINZ why the necessary forms couldn't have been sent through from Youth Services Dinsdale office to where Chas was. They told us it was protocol. We also let WINZ know that Chas had absolutely no money to get him on a bus to Dinsdale. It was late Friday afternoon and Chas had given up. In Chas's mind, he wasn't going to get any money from WINZ that Friday. It was all too hard. Mentally, he had been preparing himself for a weekend at large, sleeping rough on the streets. He was concerned the people who had hit him would be waiting for him. He had no money, no belongings and nowhere to go.

The Project team then rang local Non-Government youth service providers, Real. Within 15 minutes, two of the Real team arrived and spoke to Chas. He was taken immediately to Dinsdale WINZ where he completed the necessary paperwork and received access to emergency funds in time before WINZ closed for the week.

The Real team found Chas safe temporary accommodation for the weekend. The following week, they helped Chas make connection with more permanent lodgings. Chas was then enrolled in a Mechanics course with a local non-government provider. He is now housed, receiving education and on-going support from the Real team.

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

2.6 Government procurement of social services

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

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

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

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

- The limited use of *price signals:* Unlike private markets where consumers make decisions based on price, quality and other characteristics of the service, the users of social services rarely pay the full cost of the services they use, and often pay nothing. Rather, government purchases services on their behalf and providers compete for contracts to provide services.
- The Government has *market power:* For many services, the Government is the sole buyer and therefore wields significant influence over the services supplied, the quality of these services and the price that providers receive. It is *government* (rather than markets) that attempt to match the services provided with the needs of clients.
- *Merit goods and equity of access:* Merit goods are things that people should be able to receive aside from their ability or willingness to pay, and should be available on the basis of their need. This means that equity of access is an important consideration in delivering social services.
- *Spillover effects:* Social services often create *social* benefits beyond those experienced by the recipient of the service.[16] For example, excessive alcohol consumption not only imposes "costs" on a person's health; it can also impose significant cost on that person's family, loved ones, employers, and others. So a service that helps a person get their drinking under control not only benefits that person, but also all the people adversely affected by that person's drinking.
- Many providers are driven by a *commitment to a mission* rather than financial gain: While there are some FP providers, a sense of civic duty and commitment to a mission motivates many non-government providers. Motivations are important because they influence how providers react to incentives and how they behave when the Government cannot observe their actions.

The Salvation Army made the distinction between organisations that have a *duty of care* and those that have an *ethic of care*:

> Under the duty of care sentiment 'I care because I have a professional and perhaps legal duty to have regard for the wellbeing of the person I am servicing'. Under the ethic of care sentiment 'I care because I have empathy for the person I am serving and I am philosophically motivated to do the best I can for them'. This difference, the Army believes can make a significant qualitative difference to the outcomes achieved through the provision of social services and other social interventions. (sub. DR214, p. 24)

Social Service Providers Aotearoa (SSPA) also commented on the motivation of workers:

> [O]utcomes for the people they work with constitute the usual motivational imperative for workers in the NGO sector; therefore it is important to maintain a perspective on market models of social service provision that are about incentivising efficiency in the sector. (sub. DR235, p. 9)

2.7 The system has several strengths but many weaknesses

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

- the system delivers quality services to millions of New Zealanders – contributing to New Zealand's above-average ranking on the OECD's Better Life Index in areas such as health status, personal security, housing and subjective measures of wellbeing (OECD, 2015);
- government agencies are willing to launch trials and experiments (Chapter 3);

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

- social services workers, including a significant number of volunteers, are highly committed to improving the lives of clients;
- pockets of successful innovation exist in several areas, such as the use of data management and analytics (Chapter 8); and
- governments have committed, and continue to commit, strongly to improving public services (see Box 2.3).

The Commission has also identified a number of weaknesses in the social services system. The following sections outline the Commission's observations of system weaknesses.

Box 2.3 **Better Public Services**

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

As part of *Better Public Services*, the Government committed to 10 *result areas* that are priorities for driving improvement across the five years to 2017. For each of these result areas the Government has set itself specific, measurable, dated targets. These result areas are aspirational, requiring government agencies and providers to work together to achieve better outcomes. The *Better Public Services* result areas relevant to social services are to:

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

Source: SSC, 2015.

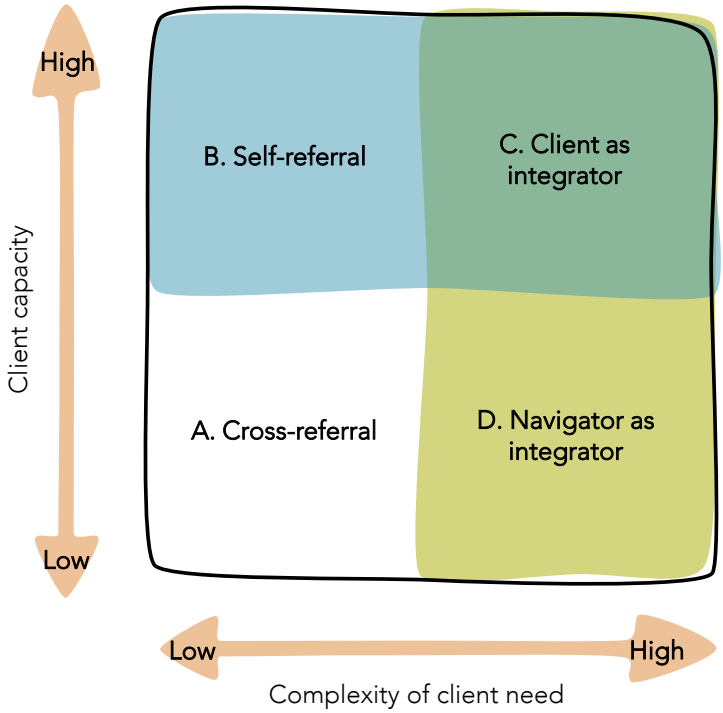
The system struggles to cater for multiple and inter-dependent needs

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

Figure 2.8 segments service users according to the complexity of their needs and their capacity to extract the services they need from the system. The client described in the previous paragraph would fall into

quadrant B. While New Zealand's social services system has considerable room to improve, it caters for these clients reasonably well.

Figure 2.8 Characteristics of people interacting with the social services system



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

Some people with complex and inter-dependent needs have the capacity to coordinate the services they require (quadrant C) while others require a higher level of assistance (quadrant D). Some people in the system will generally be in quadrant B but on occasions need help to make the best choice, such as when a GP refers them to a specialist (quadrant A).

An efficient and effective system must cater for all types of clients. Yet existing service arrangements are not well suited to deal with the complex and inter-dependent problems encountered by many of New Zealand's most disadvantaged individuals and families. During engagement meetings, the Commission heard time and time again of the system failing to provide effective help to clients with multiple, complex needs – particularly those in quadrant D. Many submissions echoed this.

F2.3

Clients differ according to the complexity of their needs and their capacity to access the services they require from the social services system. The Commission has found it useful to notionally place clients into four groups:

- People with relatively straightforward needs who require assistance to access services (quadrant A).
- People with relatively straightforward needs who have the capacity to access services for themselves (quadrant B).
- People with complex needs who have the capacity to access services for themselves (quadrant C).
- People with complex needs who require assistance to access services (quadrant D).

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

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

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

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

Barnardos observed that the system is not working well for children in socially deprived areas:

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

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

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

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

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

There are huge potential benefits from improving the lives of people in quadrant D – both for the individual and for society. Recent analysis for the Social Sector Board examined the social services system's 10 000 "highest-cost clients" using data from Work and Income, MoH, Corrections; Housing New Zealand and Child, Youth and Family (pers. comm., 7 August 2015). Based on past and current patterns, the analysis generated the following projections:

- in total, government will spend $6.5 billion on the "top 10 000" over their lifetime;

- at least $500 000 will be spent on each of the top 10 000 clients;
- there are over 900 clients that will cost the system $1 million over their lifetimes;
- the largest component of per client spending will fall on Health, Corrections, and Work and Income; and
- mental illness, addiction and disability are over-represented in the 10 000.

New Zealand also suffers high rates of domestic and sexual violence; children in need of protective care; inequality in achievement within and across schools; re-imprisonment; and damp, inadequate housing (Box 2.4). These are complex issues that often defy the simple solutions put forward by the current system.

Box 2.4 **Some negative social indicators highlighted in recent reports**

The Salvation Army (Johnson, 2015) reported that:

- 17% of New Zealand children lived in benefit-dependent households in 2014.
- There were 19 623 substantiated cases of child abuse or neglect in 2014.
- There is a 25.5% gap between students from deciles 1–3 and 8–10 schools leaving school with NCEA Level 2 or better (in 2013).
- 36.8% released prisoners are re-imprisoned within 24 months of their release

New Zealand Family Violence Clearing House (2015) reported:

> In 2014, there were 101 981 family violence investigations by NZ Police. There were 62 923 family violence investigations where at least one child aged 0-16 years was linked to these investigations…
>
> 29% of New Zealand women and 9% of men report having experienced sexual assault in their lifetime. 73% of these assaults against women and 54% of these assaults against men were perpetrated by a partner, ex-partner or other family member. (p. 1)

Statistics New Zealand (2015) noted that 6.2% of the population consider their house or flat has a major problem with dampness or mould.

F2.4 The social services system struggles to effectively deal with multiple and inter-dependent problems encountered by the most disadvantaged New Zealanders (quadrant D). Improving services for this group offers the biggest opportunity for gains.

Little visibility around what works and what does not

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

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

Social Sector Trial leads noted that knowledge is patchy throughout the system:

> The social services system is vast and there is currently no comprehensive knowledge base [in] which learning is kept. Agencies all have knowledge and learnings as do learning institutions and service providers but this knowledge is often vested in units and people in fragmented ways and is not consistently applied or shared … Information gathering varies in reliability and interpretation. In some

> cases information gathered is comprehensive and can be strongly relied on however this is not the case across the entire sector. (sub. 126, p. 24)

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

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

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

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

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

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

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

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

F2.5 The social services system often fails to create and share information about which services and interventions work well and those that do not. Overcoming this deficiency in the system is important for achieving better social outcomes from expenditure on social services.

Social services are poorly coordinated

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

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

The need for better coordination was a recurring theme in submissions. For example, Stand Children's Services Tū Māia Whānau noted:

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

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

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

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

F2.6 Better alignment and coordination of services would improve client outcomes.

Services are often not tailored to the needs of clients

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

Yet the social services system tends to bundle clients into homogeneous groups – older New Zealanders, people with disabilities, people facing domestic violence, people with drug problems, and so on. As such, services do not tailor to the individual needs of clients. One symptom of this is the under-use of services. That is, even when people are aware of a service and eligible for it, they choose not to use the service because it does not meet their needs. The Commission has heard this is a particular problem in the area of respite services for family carers:

> Although support hours may be allocated by the [Needs Assessment and Service Coordination service] NASC (carer support, agency support or individualised funding hours) it is not straightforward to translate that allocation into actual useful support. In practice, it can look as if a person/family/whānau is well supported because they've been allocated support hours, but they may not be able to use that time at all. The carer support scheme is particularly troublesome. (Angela Hart, pers. comm., 27 May 2015)

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

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

Similarly, the Impact Collective also noted:

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

The system hampers innovation

Innovation involves finding improvements in the way goods and services are produced, or producing new goods and services that better meet client needs. Innovation in social services can take many forms including:

- finding new and more-effective approaches to addressing complex social problems;
- re-designing services to achieve results more efficiently and cost-effectively;
- re-designing organisational processes to lower duplication and waste within the system – and so reduce costs to both providers and clients;
- identifying and providing services for new groups of clients; and

- commissioning services in a way that makes better use of information about what works, for whom, and how much alternative approaches cost.

Innovation is important for improving the effectiveness of social services over time and for offsetting increases in the cost of delivering services. Yet for innovation to flourish certain conditions are needed. These conditions include:

- freedom to try new things out;
- the ability to raise funds to cover the costs of innovation;
- the ability to bear the risk that the innovation will be unsuccessful; and
- the prospect of reward for successful innovation.

Rewards for innovation could include satisfaction that client outcomes have improved as the result of the innovation, or, in a business context, increased market share and higher profits.

At least two of the conditions for innovation are often not met within New Zealand's social services system. For example, providers often lack the freedom to try new approaches and they often struggle to find funds to cover the cost of innovation. Chapter 4 and Chapter 7 explore the reasons for this.

Despite these barriers, there are many examples of innovative approaches to the design and delivery of social services in New Zealand (Chapters 3 and 7). Yet a single provider innovating in isolation has a limited impact on the overall effectiveness of the social services system. Unlike regular markets, where innovation spreads through successful innovators gaining market share or through imitation by other businesses, innovation in the social services system predominantly spreads through funders identifying promising innovations (possibly from overseas) and contracting providers to follow the new approach.

This centralised approach to spreading innovation has severe limitations. First, as discussed, the social services system fails to create and share information about which services and interventions work well and which do not. Second, funding agencies are cautious about trying out new approaches because of political risks and the need to manage costs (Chapter 4). Third, once funders prescribe a new approach in contracts, providers again have little room to continue to innovate.

The Commission has no direct measures of innovation across or within the social services, as most providers are not in scope for Statistics New Zealand's Business Operations Survey. OECD (2014) surveys evidence across industry sectors in OECD countries and concludes that, compared to other sectors, public administration and educational and health services have lagged in adopting data-driven innovation.

Schiff et al. (2015) show that across seven industry sectors New Zealand lags other OECD countries in value added from data-driven innovation. Schiff et al. (2015) estimated that, in 2014, data-driven innovation generated $2.4 billion of value-added in the New Zealand economy. Of this, $260 million was attributable to health, education and social services industries. The proportion of gross value-added attributable to data-driven innovation in these industries was substantially below the proportion for some other service industries (eg, finance and insurance; and transport and logistics) and lower than across the whole economy.

In recent decades, information and communications technology (ICT) has been a key source of productivity growth in many service industries. ICT has enabled new business models. The new models have led to disruptive change in the way that industries are organised. Change often involves smaller firms disappearing, and successful firms taking advantage of the economies of scale and scope offered by ICT (NZPC, 2014a). Social services organisations have not, in general, used ICT to effect the sort of disruptive re-organisation observable in some other service industries (Mansell, 2015). One possible reason is that the way that the social services system is organised makes it difficult for organisations to take advantage of the economies of scale and scope offered by ICT. Chapter 8 considers this issue further.

Government processes have high transaction costs

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

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

- there is a high incidence of short-term contracts (Figure 2.9);
- short-term contracts are often "renegotiated" year after year, with little change to the underlying contract;
- providers with more than one contract are audited multiple times by different government agencies;
- regular changes in contract managers mean providers have to bring new managers "up to speed" with the contract and forge new relationships; and
- performance-reporting regimes meet accountability requirements, yet provide little feedback to providers about how they can improve performance.

For providers, government processes can be a significant drain on resources.

Figure 2.9 shows data on the length of Ministry of Social Development (MSD) contracts for services in 2014/15. Little contracted expenditure is on contracts longer than 3.5 years, and 46% is on contracts of less than 2.5 years.

Figure 2.9 Percentage of MSD contracted-out expenditure by contract duration, 2014/15

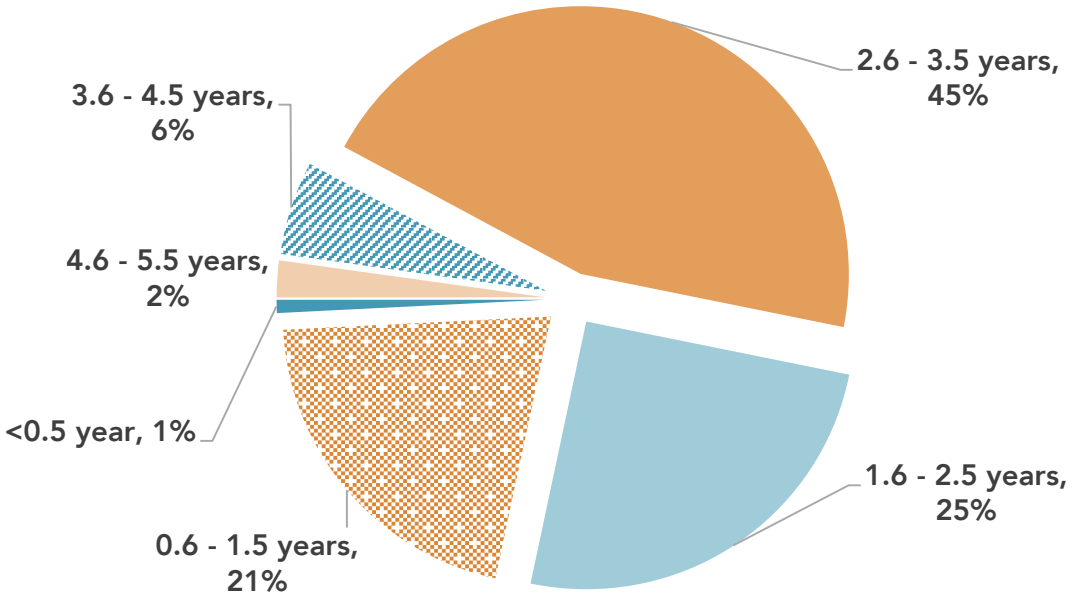
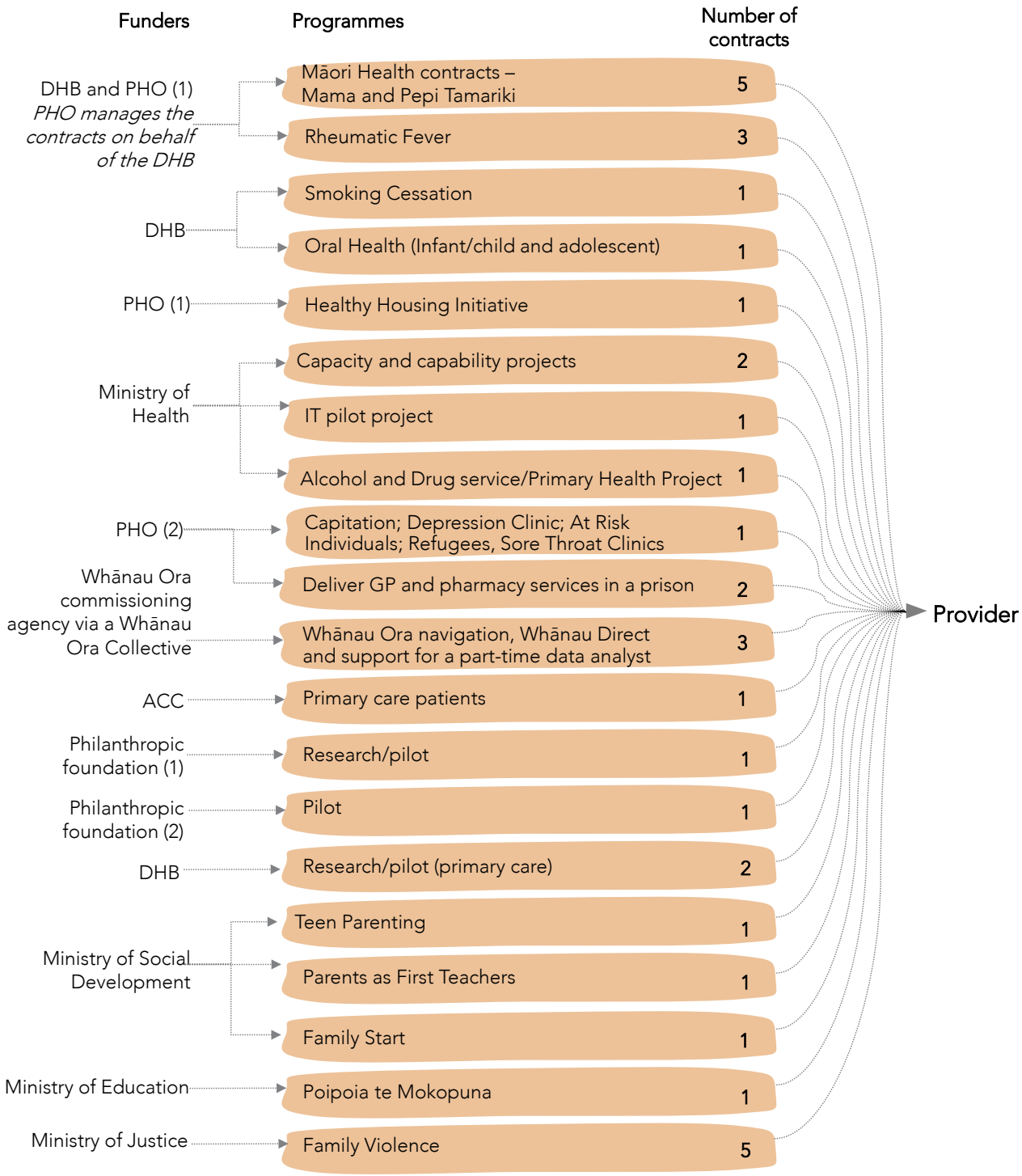


Figure 2.10 shows data supplied by an urban provider with more than 30 contracts, attached to 27 different programmes and 12 separate funders (9 of them government). The provider estimated that 20–25% of staff time is spent on contract management and reporting. This situation is not unusual. A small, rural health provider also highlighted this problem: "[we hold] over 80 Government contracts, each on the whole defining a narrow, mostly inflexible range of service outputs and often detailed but inconsistent, reporting requirements" (Hokianga Health Enterprise Trust, sub. 44, p. 2).

Figure 2.10 Example: single provider – many funders, programmes and contracts



It was clear from submissions that the administrative burden on providers is a source of frustration. For example, the Wise Group noted:

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

The Otago Youth Wellness Trust expressed similar views:

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

New Zealand Disability Support Network noted:

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

F2.7 Opportunities exist to reduce the transaction costs of contracting out social services. From a provider's perspective, onerous government processes are wasteful in that they draw resources away from providing services.

Missed opportunities for prevention and effective early intervention

Preventing social problems, or intervening early when they do arise, can significantly improve outcomes for individuals and the return on government expenditure. Evidence strongly suggests this. Yet, with some exceptions, the social services system focuses predominately on "fixing" problems once they appear, rather than preventing them in the first place. Inquiry participants referred to this as the "ambulance at the bottom of the cliff" approach to service delivery. SSPA elaborated on this metaphor:

> At SSPA we use the metaphor of the ambulance at the bottom of a cliff (e.g. statutory services such as CYF), the fence at the top (preventative services such as Children's Teams) and another fence further back which acts like the safety net to reduce pressure at the cliff-edge fence (early intervention services such as Whānau Ora)… Examples of services behind this last fence are those specialist counselling services, parenting programmes, holistic family services, domestic violence prevention services and so on that are anchored in strong community relationships. Without the safety net, many more client families will present at the cliff-edge and many more will fall over the cliff-side. (sub. DR235, p. 3)

Early intervention can mean different things in different contexts. For example, in some instances early intervention could mean mobilising family/whānau, friends and/or the broader community to help a person heading down a self-destructive path. In other instances, it may involve formal interventions by a government agency or a provider funded by government.

Whether early intervention is best achieved through a structured government programme or through natural support networks will depend on the situation. The key point is that New Zealand's current social services system undervalues the importance of early intervention – no matter who provides it.

Examples of early intervention and provision do exist. For instances, MSD's Investment Approach has identified that people who enter the income support system at an early age have the highest risk of long-term dependence on welfare benefits. As a result, MSD has launched the Youth Service to address the skill needs of teenagers not in employment, education or training (Chapter 3; Appendix B). The ACC spent $34 million on injury prevention in 2013/14 and, when accidents do happen, it intervenes quickly to improve longer-term outcomes (Box 9.7 and Box 9.8). Immunisation programmes are another example of early intervention to reduce the long-term burden of disease.

An obvious place for early intervention is supporting the early childhood development of children at high risk of poor life outcomes. Heckman (2009) used evidence from a range of sources to show that early intervention in the lives of disadvantaged children produces much higher returns on investments than waiting until problems emerge later in childhood or adolescence:

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

The Parliamentary Health Select Committee echoed these views in its inquiry into improving child health outcomes and preventing child abuse:

> The evidence is very strong; the first few years of life from pre-conception are fundamentally important for a broad range of child health outcomes, and for the achievements of children as adolescents and adults. The greatest gains and cost savings will come from effective evidence-based early intervention.

> Currently most New Zealand children enjoy good health, but there are significant and alarming differences in different parts of the country, which urgently need to be addressed. (Health Committee, 2013, p. 6)

The characteristics of effective interventions for young disadvantaged children have been known for decades. Heckman (2009) highlighted the importance of home visits and non-cognitive skills:

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

Evidence suggests that programmes need to start early in a person's life, be intensive, involve parents, and focus on social skills, attitude and motivation as well as cognitive (learning) skills. Programmes must also be of sufficient duration to be effective. Such programmes can be complex and difficult to implement. Providers need to make sure they implement evidence-based programmes in ways consistent with proven designs. Roughly following a particular programme design is not sufficient to assure success.

Special effort is required to involve more disadvantaged families targeted by programmes. Early and ongoing evaluation of early intervention programmes is essential to provide assurance that they are working as intended (Robertson, 2014).

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

> In spite of its merits, which have achieved increasing recognition by national and local government and the voluntary sector, the provision of successful evidence-based Early Intervention programmes remains persistently patchy and dogged by institutional and financial obstacles. (Allen, 2011, p. ix)

One successful regional programme in New Zealand is Early Start (Robertson, 2014). This programme is an evidence-based, long-term and intensive home-visiting service aimed at supporting about 250 vulnerable Christchurch families who are caring for children under the age of five.

Family Start is the largest New Zealand home-visiting programme targeted at disadvantaged families with pre-school children. Yearly funding for Family Start and Early Start together amounts to more than $30 million. Family Start commenced in 1998 and currently serves about 5 000 children and their families in 32 locations, selected because they have moderate-to-high levels of deprivation. The programme has the required intensity and duration potentially to improve outcomes for vulnerable children. Yet, to date no study has been of a design able to demonstrate "conclusively" that participation in the programme produces benefits (Robertson, 2014).

A review by Cribb (2009) found that one in four families referred to Family Start chose not to take up the service. A further 17% of families were lost from the service within the first year. Cribb concluded that if programme fidelity could be improved and effectiveness established, both Family Start and Early Start should be expanded so as to reach a greater number of disadvantaged families.

MSD has since worked on these issues and is currently evaluating Family Start (using quasi-experimental models) in partnership with researchers from the University of Auckland, Auckland University of Technology and George Washington University. At the time of writing, peer-reviewed results from the evaluation are not publically available. MSD is due to release them in October 2015. The results will demonstrate what effect Family Start is having on children's outcomes and provide evidence on the case for further expansion of this type of early intervention programme.

Estimates of the size of the target group of vulnerable children that could benefit from intensive home-visiting programmes in early childhood range from 5% to 13% of the population, or between 15 000 and 39 000 children under the age of five (MSD, 2004; Fergusson, Horwood & Ridder, 2005). Given Family Start currently serves about 5 000 children in 5 000 families (Robertson, 2014), there appears to be significant scope to improve life outcomes by expanding interventions in early-childhood development.

New Zealand has adopted other evidence-based parenting and educational programmes, such as Incredible Years and Triple P. These programmes tend to work better with older children who are starting to exhibit

behavioural problems (Robertson, 2014). Adoption is patchy and home-visiting programmes are not necessarily included in the programmes.

F2.8 Opportunities exist to improve outcomes for individuals and achieve a higher impact from government expenditure through early intervention.

A large stock of programmes face little review

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

The Commission has observed that a large stock of existing social services continues to be funded and run in much the same way as in past decades, with little evaluation of their impact or cost-effectiveness. Further, budget processes typically place strong emphasis on the flow of new initiatives, focusing the attention of Ministers and officials on marginal expenditure that has had little effect on the existing stock or lasting impact on the performance of the system. Limited evaluations of new initiatives mean that the lessons learnt do not feed back into the system – contributing to a "funding inertia" in regard to the large stock of programmes.

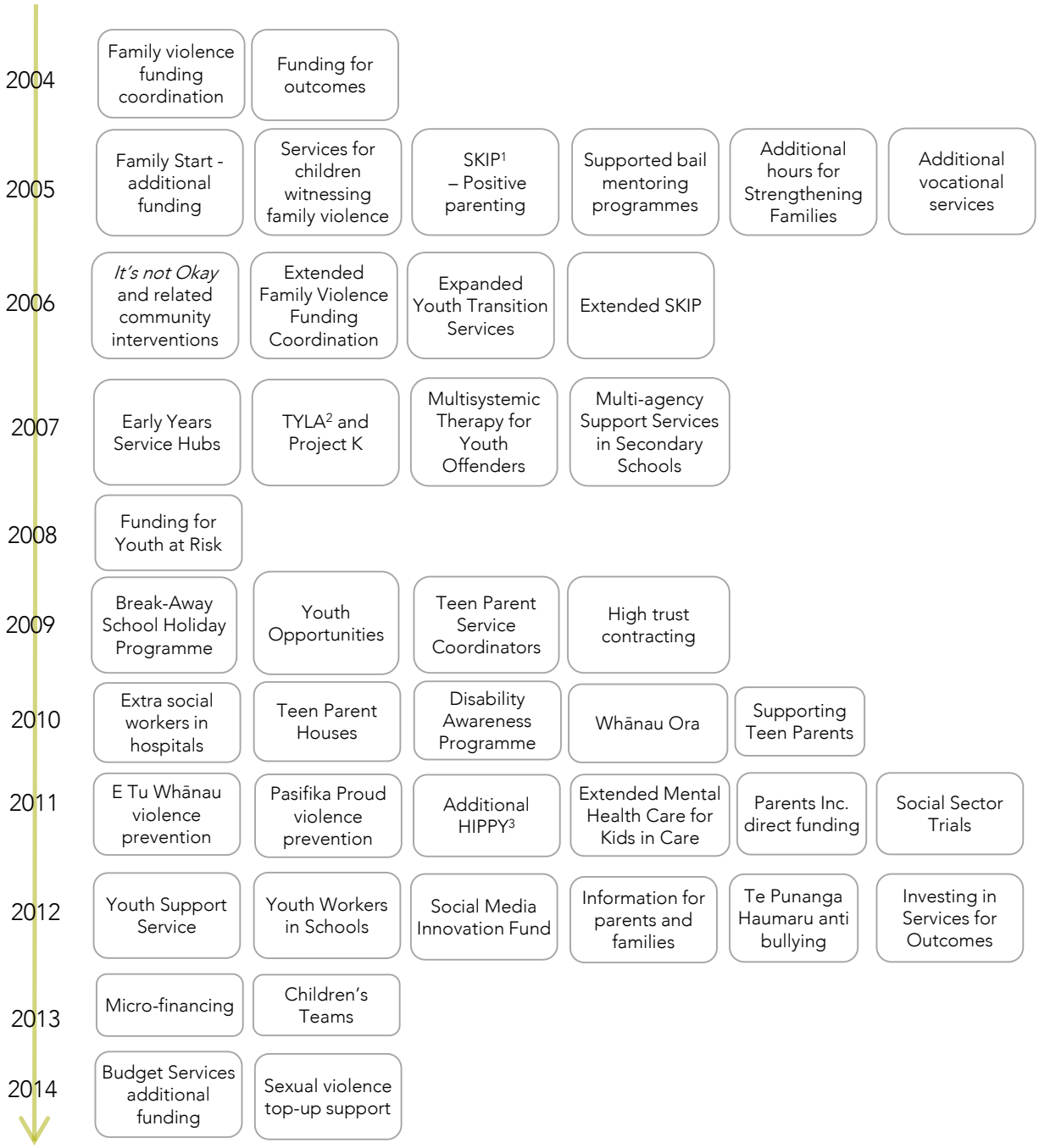
The number of agencies and different domains in social services make it difficult to get clear figures on the size of the stock of social services. A stocktake of programmes aimed at children identified 162 different services and programmes across seven government agencies in 2012/13.[17]

Each year further initiatives are added to the existing stock. Figure 2.11 illustrates the flow of new initiatives over the past 10 years. Some of these "new" initiatives are expansions of existing programmes. To the Commission's knowledge, all of these initiatives are still running. Some of them may be excellent, highly effective programmes. But, as a general rule, the system fails to identify the effective or the ineffective. The Waimakariri District Council noted the perverse incentives that are created when government agencies become overly focused on funding "new ideas":

> A more deliberate approach to establishing initiatives that show promise would appear to be a good way of achieving incremental improvements in the effectiveness of social services, without stifling innovation. … In this context, at least one of the Waimakariri District's providers that relies extensively on funding from organisations, such as the Community Trust, commented that they found the preoccupation of the funder with providing grants for new services frustrating. In response they spent a considerable amount of time developing applications that presented services that they were already providing and were valued by the community as something new. (sub. DR240, p. 3)

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

Figure 2.11 The flow of new initiatives: Selected examples



Notes:

1. Strategies with Kids – Information for Parents
2. Turn Your Life Around
3. Home Interaction Programme for Parents & Youngsters

F2.9 Ministers and officials tend to focus on the flow of new social services initiatives, giving relatively little attention to management of the large stock of programmes that account for the majority of expenditure. There are likely to be significant gains from more active management of the stock of social services programmes.

2.8 Many reviews, few lasting solutions

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

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

Table 2.1 Issues identified by selected reviews of social services

Year	Report or strategy	Issues identified				
		High transaction costs	Lack of coordination	Lack of focus on outcomes	Contracting capability needs improving	Performance for, or relationship with, Māori
1988	Pūao-te-ata-tū: The report of the ministerial advisory committee on a Māori perspective for the Department of Social Welfare		✓			✓
1997	Strengthening families		✓	✓		
1998	Government funding of voluntary services in New Zealand; the contracting issues	✓		✓	✓	
2001	Review of the Centre		✓	✓		✓
2007	Supporting a sustainable social services sector	✓	✓	✓		
2008	Good Intentions: an assessment of the statement of government intentions for an improved community-government relationship	✓	✓		✓	✓
2010	Report of the Taskforce on Whānau-Centred Initiatives	✓	✓	✓		✓
2011	Better Public Services Advisory Group report	✓	✓	✓	✓	

Source: Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare, 1988; Department of Social Welfare, 1997; McKinlay Douglas, 1998; Advisory Group on the Review of the Centre, 2001; Office of the Minister for Social Development and Employment, 2007; Association of Non-Governmental Organisations, 2008; Taskforce on Whānau-Centred Initiatives, 2010; Better Public Services Advisory Group, 2011.

F2.10 Over the past 20 years, numerous reports into the social services system have highlighted a consistent set of problems and proposed a set of similar solutions. Many of these reports have focused on symptoms of system weaknesses rather than the underlying cause of the weaknesses. Lasting improvement can only come from identifying and tackling these causes.

2.9 Pressures on the system

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

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

Demand-side pressures on the system

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

An ageing population

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

Unevenness in outcomes and access across the population

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

Varying regional trajectories

The demand for social services is also geographically uneven. Some regions have experienced depopulation, while other areas – notably Auckland – have experienced rapid growth as a result of national and international migration. Superu noted the changes that the varying regional trajectories create for the social services system:

> New Zealand is displaying increasingly uneven patterns of ageing, leading to smaller and older provincial towns, while at the same time Auckland has a concentration of young and middle age people who are highly diverse in terms of ethnicity, language and country-of-birth (for example, 39% of Auckland's population are born outside of New Zealand). These changes have wide ranging implications for social service provision (including sustainable access to services and affordable housing, and responsiveness to diversity). How institutions respond to population change and increasing diversity is a widely recognised research priority among New Zealand academics. (Superu, sub. DR182, pp. 3–4)

Increasing number of people with multiple and inter-dependent needs

The social services system struggles to cater for people with multiple and inter-dependent needs (Section 2.7). Evidence shows that the number of people in New Zealand with these needs is increasing. For example, the number of people diagnosed with psychological distress, addiction issues, and multiple health problems has increased:

> [T]he 2014 Health Survey has a significantly higher proportion of respondents who say they have been diagnosed with mood or anxiety disorders compared with previous surveys (18.4% in 2014 compared with 12.7% in 2006) (Annual Update of Key Results 2013/14: New Zealand Health Survey). This is mirrored in statistics from the Ministry of Health which show a long term trend of increasing access to specialist mental health and addiction services since the turn of the century (Office of the Director of Mental Health Annual Report, 2013, Ministry of Health)… (Superu, sub. DR182, p. 4)

Increasing expectations of service quality and availability

Public expectations change through time in response to changes in technology, availability of information and social trends. As technological progress makes other aspects of people's lives easier, the public will look to government processes and services to keep pace. One example is the ability to interface with government services through the use of mobile devices such as smart phones and tablets. Increasing access to information can also raise public expectations about the delivery of treatments and services beyond what is currently available in New Zealand (MoH, 2014a). Similarly, governments need to manage, and where necessary respond to, evolving standards of fairness and equity. Recent court cases on payment for family carers are an example. The competing promises of politicians can also have an impact on public expectations.

Supply-side pressures on the system

The social services system also faces considerable supply-side pressures.

Managing demand within fiscal limits

Government agencies need to manage demand-side pressures within realistic spending allowances. Agencies will be under ongoing pressure to improve the efficiency and effectiveness of their systems so as to generate the greatest value from the available expenditure. The effective use of technology will be increasingly important to maximise the impact from available resources.

Maintaining and promoting a skilled workforce

A key challenge for the social services system is to match the skills and capabilities of providers to the changing needs of clients – providers (government and non-government) need to ensure that the skills of their workforce keep pace with the growing and increasingly complex needs of clients. However, it can be difficult for providers to justify spending resources on training staff when it comes at the expense of delivering services:

> Very many organisations have to make tough choices when faced with reduced funding, either as a result of direct cuts or from the lack of any inflation adjustment in their funding (for over a decade in many cases) – staff training is cut before services to vulnerable clients. Community organisations look with sadness at the expenditure by government agencies on staff training and support, when those same government agencies refuse to include any allowance for staff training in the contracts they set for the providers of the actual services in the community. (Hui E!, sub. DR213, p. 3)

Population mobility

The mobility of the New Zealand population is already high and is set to increase over the coming decades. As people move from one area to another, they risk "falling through the cracks" of the system. The use of information systems will be important for the continuity of services for people as they move from place to place. The system will also need to cope with an increasing number of people moving away from their established support networks:

> New Zealand experiences high rates of residential mobility and this is likely to increase as the share of people living in rental accommodation increases (Census data shows that mobility is much higher among those who rent and home ownership rates display a downwards trend). High mobility has been linked to service disruption, lower levels of social support, poorer health and education outcomes, and declining social cohesion (Superu, sub. DR182, p. 3).

Pressures on the voluntary sector

Volunteers play an important role in New Zealand's social services system (section 2.4). Indeed the recruitment and retention of volunteers is a daily concern for many NFP providers in New Zealand. Sanders et al. (2008) noted that for many organisations demand for volunteers exceeds supply:

> [M]any interviewees in this project commented on declining availability of volunteers. While there is not clear evidence of an overall decline in volunteer numbers, demand for volunteers appears to exceed supply for many organisations, which report difficulties in recruiting and retaining sufficient volunteers to meet their needs. It is certainly true that the nature of volunteering and who volunteers is changing, and that changes in the way many non-profit organisations need to operate are making it more difficult for some 'traditional' volunteers to remain…. Where there are insufficient volunteers, service delivery, governance and management are affected. It becomes difficult for non-profit organisations to sustain and build their work, and there is greater pressure to use paid professionals to deliver services and programmes. (Sanders et al., 2008, p. 30)

Volunteering New Zealand highlighted the impact that government processes can have on the volunteer workforce:

> In the paper *Organisational Factors Affecting Volunteers,* Studer and Schnurbein (2013) found empirical evidence that bureaucracy affects volunteer retention, by negatively influencing commitment and positively influencing burden. (sub. DR161, p. 4)

2.10 Summary – an under-performing system under pressure

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

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

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

- the system struggles to cater for people with multiple and inter-dependent needs (quadrants C and D);
- government agencies have little information on the effectiveness of programmes and interventions;
- social services are often poorly coordinated;
- services are often not tailored to meet the needs of clients;
- the system generates too little innovation and too little learning from innovation;
- transaction costs are higher than necessary;
- opportunities for early intervention are missed; and
- the large stock of programmes face little review.

The social services system faces several pressures, including increasing demand for services, an increasingly mobile population and a rise in the number of people with multiple and inter-dependent needs. The current system appears poorly placed to deal with these pressures.

3 New ideas in New Zealand and elsewhere

Key points

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

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

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

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

New types of programmes and major changes in policies and institutions of the sort discussed in this chapter are only one type of innovation. Incrementally finding better ways of delivering current services, applied consistently over time, is equally if not more important for improving effectiveness across the social services (Chapter 7). Chapter 7 also identifies barriers to innovation in social services.

3.1 More efficient investment in social services

Government and government agencies are continually faced with choices about where best to deploy social services resources to achieve the outcomes they seek. In the past no systematic approach has been used to measure outcomes, evaluate interventions, share information, and to use this information to make design decisions in resourcing and programme design (Chapter 2). The Ministry of Social Development (MSD) has begun using a model borrowed from the Accident Compensation Corporation (ACC) to guide decisions about the design and targeting of employment services for income support clients.

The Ministry of Social Development's Investment Approach

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

In response to the WWG recommendation, MSD adopted the Investment Approach.

- The Investment Approach uses an actuarial model to evaluate the likely long-term costs (forward liability) of paying benefits to current and recent income support clients. The valuation is based on what has happened in the past to other people with similar backgrounds (using 30 years of data on patterns of benefit receipt). This may be the first time in the world that an actuarial approach has been taken to evaluating the costs of a pay-as-you-go welfare benefit system.
- MSD staff analyse the details of the yearly valuation to identify the drivers of long-term costs and opportunities for initiatives to reduce those costs.
- MSD, in the initial stages of the Investment Approach, "prioritise[d] investment on 'short-term high intensity' services targeted towards clients whom the Ministry expects to achieve a positive outcome in a short period" (OAG, 2014a, p. 29). MSD recognised that more time is needed to effect lasting change for "those people most vulnerable and at risk of long-term dependency" (MSD, 2014b, p. 6).
- MSD tests new service designs through randomised controlled trials. In these trials, MSD's evaluation team (iMSD) allocates clients to service designs according to an assessment of who is most amenable to achieving positive change. iMSD randomly streams one in ten clients into a control group to identify the effects of different service designs. To protect the integrity of the trial, clients and case managers are not able to influence the allocation. Currently, the effectiveness of service designs is measured in terms of

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

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

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

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

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

The New Zealand Government is considering how the Investment Approach could be extended further across the social services (Minister of Finance, 2015). Investment models for the design and delivery of social services are discussed further in Chapter 9. A data network that could provide information to support a wider investment approach is discussed in Chapter 8.

3.2 Increasing choice and empowering service users

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

The Australian National Disability Insurance Scheme

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

An individual may manage the funding for their plan, nominate someone to help them, or ask the NDIA to manage all or part of the funding (NDIA, 2015a). The person with the disability, or their agent, is able to choose where they spend their entitlement. Service providers will no longer receive block funding from the

Government. Instead, they will compete for a client's funds, requiring a radical re-orientation of their business models. The NDIA told the Commission that they expect over time this will lead to new providers entering the market, as well as a substantial re-organisation and consolidation of the current provider market.

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

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

NDIS legislation, passed in March 2013, established the NDIA to administer the scheme. Subsequently, the Australian Commonwealth and State and Territory Governments have signed agreements for the scheme's roll-out across Australia. When fully implemented in 2018/19, the NDIS will cover 460 000 people at an estimated cost of A$22 billion a year (NDIA, 2015b). Commonwealth, State and Territory Government contributions, together with an addition of 0.5% to Australia's universal health insurance levy, fund the NDIS.

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

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

Implementation will take some years, and involve evaluating trials taking place in various states to enable the fine-tuning of delivery models. Trials will also help verify cost estimates. States are passing their own enabling legislation. By July 2015, 16 000 participants had joined the NDIS (NDIA, 2015b). The NDIA has closely monitored the scheme's progress. Actuarial data and surveys indicated that in April 2015, 18 months through the initial three-year phase, the scheme was on time, on budget and participant satisfaction was 95%. More recently, however, pressures on budgets have emerged in trials in South Australia as greater numbers than expected of children with autism spectrum disorders have entered the scheme (Morton, 2015).

The National Institute of Labour Studies at Flinders University is leading a consortium to independently evaluate the trials over the three years from 2013. The evaluation will look at the NDIS implementation processes, and assess what is working and what needs to improve (NILS, 2015).

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

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

Client choice in disability services in New Zealand

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

Empowering families, whānau, communities and iwi

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

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

Whānau Ora

Empowering whānau choice is at the centre of Whānau Ora. Whānau are engaged in a planning process that helps them set their aspirations and determine what support they want, when and where they will receive the support, and who will deliver it (Chapter 13 and Appendix C). Yet choices are limited by the resources available directly through Whānau Ora and the engagement of other government agencies:

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

Te Hiku Social Development and Wellbeing Accord

Te Hiku social accord was signed between three Te Hiku iwi and the Crown in February 2013 as part of iwi Treaty of Waitangi settlements in the far north of New Zealand (Te Hiku Iwi Development Trust, 2013).[18] The accord is an iwi-based approach to:

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

The accord is an approach to iwi sharing the governance of social services in their rohe with the Crown (Chapter 13). Parallel to the establishment of the Accord, the Minister of Social Development invited organisations and individuals in the wider Far North community to identify community goals and aspirations

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

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

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

3.3 Better-integrated services

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

Canterbury Clinical Network

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

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

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

Leaders of the Canterbury health system promoted the idea that "there is only 'one system, one budget' …each dollar can only be spent once" (Timmins & Ham, 2013, p. 15). This shifted the focus to the best use of available resources to achieve health outcomes, rather than department by department looking for extra revenue at the margins. This shift, in turn, was supported by information systems that gave all participants a shared view of the whole system (Mansell, 2015; CCN, sub. DR198).

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

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

The Canterbury DHB also moved its external contracts to a form of alliance contracting "… a collective contract with pre-agreed gains and losses dependent on the overall performance of all the parties, rather

than with penalties solely for whoever fails within it" (Timmins & Ham, 2013, p. 19). As far as possible, the contracts are for providing a service capacity rather than fee for service, to give referrers and providers a joint incentive to manage the cost:

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

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

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

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

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

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

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

> The evidence indicates there are further gains to be made in further developing and refining collaborative models of health service delivery. (sub. DR156, p. 11)

The CCN, nominated by the Canterbury DHB, won the Prime Minister's Award and the Canterbury DHB won several other awards in the Institute of Public Administration New Zealand 2015 Awards (IPANZ, 2015a). Love (forthcoming) discusses the conditions for success and how the Canterbury DHB integration initiatives can be generalised (Chapter 10).

Collective impact approach to dealing with complex social issues

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

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

- **Common agenda:** All participants have a shared vision for change including a common understanding of the problem and a joint approach to solving it through agreed actions.
- **Shared measurement:** Collecting data and measuring results consistently across all participants ensures efforts remain aligned and participants hold each other to account.
- **Mutually reinforcing activities:** Participant activities must be differentiated while still being coordinated through a mutually reinforcing plan of action.
- **Continuous communication:** Consistent and open communication is needed across many players to build trust, assure mutual objectives, and create common motivation.
- **Backbone support:** Creating and managing collective impact requires a separate organisation(s) with staff and a specific set of skills to serve as the backbone for the entire initiative and to coordinate participating organisations and agencies. (p. 1)

One of the Whānau Ora commissioning agencies, Te Pou Matakana, has adopted a collective impact approach (Chapter 13; Appendix C).

3.4 Better contract design and management

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

Contracting for outcomes

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

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

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

Payment for outcomes in the Youth Service

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

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

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

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

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

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

3.5 Fresh ideas from new providers and investors

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

Social bonds as a new service model

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

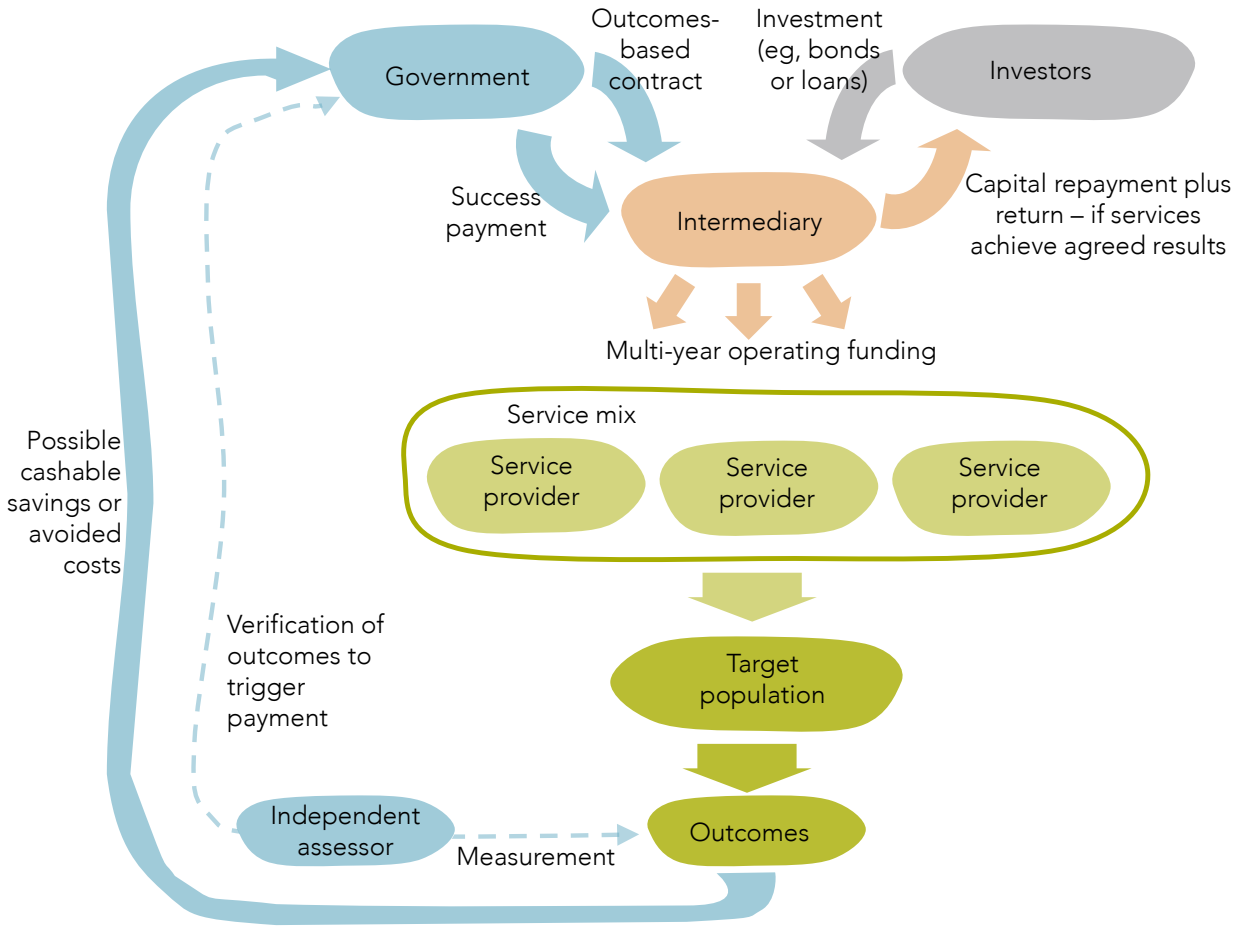
MoH is leading work on developing social bonds in New Zealand (MoH, 2014b). In May 2015 the Government announced that the first social bond in New Zealand would expand employment services to people with mental health illness (Minister of Finance & Minister of Health, 2015). Wise Group and ANZ Bank New Zealand are in negotiations with the MoH as potential partners (MoH, 2015).

Social bonds are being trialled in the United Kingdom, the United States and New South Wales (NSW). Outcomes sought include reduced recidivism among prisoners (eg, New York City) and restoring children in out-of-home care to their families (eg, NSW).[19]

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

[19] Jeram and Wilkinson (2015) briefly survey the international experience with social bonds.

Figure 3.1 How a social bond works



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

The Newpin Social Bond

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

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

The expanded Newpin programme is expected to generate about A$95 million over seven years in savings for the NSW Government in the cost of out-of-home care.[20] The NSW Government will direct about 50% of these savings to UnitingCare to fund the Newpin programme and provide a return to investors.

The bond is structured so that UnitingCare pays investors a return based on the rate of success in restoring children in care to their families. Payments are calculated as a proportion of government cost savings attributable to the programme's success. All restorations are independently decided by the NSW Children's Court. In the first year, investors received a return of 7.5% for a restoration rate of 60% (NSW DPC, 2015).[21] As numbers in the programme are small and year-by-year results volatile, the cumulative restoration rate over all previous years will be used to determine the return to investors in future years (SVA, 2014). SVA estimates

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

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

that, over the seven years of the bond, more than 700 families will participate in the Newpin programme and more than 400 children will be safely returned to their parents.

The social bond approach stimulates innovation by linking payment to outcomes while leaving the players to work out how to achieve them. If successful, social bonds can generate information on what works that can be applied more widely (SVA, 2013a). Chapter 6 and Jeram and Wilkinson (2015) discuss the potential advantages of social bonds and the challenges in designing and implementing them well.

A number of submissions opposed the use of social bonds, generally arguing that they involve an as yet unproven approach in which private investors make a return from assisting vulnerable people.[22]

New partners in areas of traditional state provision

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

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

Modern contracting-out of prison management started in the United States in the 1980s, followed by Australia shortly after and then the United Kingdom. In 2011, the New Zealand Government contracted Serco, a multi-national firm, to manage the Mt Eden Corrections Facility (a remand prison) for 10 years. According to Sturgess (2012), private management of prisons has proved relatively uncontroversial, except in the United States. In the United States the use of spot-markets to trade some correctional services, with less monitoring, has led to problems with service quality. In New Zealand, the Department of Corrections has recently resumed management of the Mt Eden Corrections Facility and fined Serco in response to concerns about Serco's performance (Gulliver, 2015).

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

Partnership Schools | Kura Hourua

Partnership Schools | Kura Hourua (PSKH) commenced operating in New Zealand in 2014.[23] New Zealand state schools already have a large degree of operational freedom compared to many other jurisdictions. Even so, the Government offers PSKH even more flexibility in terms of:

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

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

[22] These include the Methodist Mission Southern Response sub. DR135, Auckland District Council of Social Services sub. DR141, Association of Salaried Medical Specialists sub. DR156 and Community Networks Wellington Inc. sub. DR159.

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

Te Kura Hourua o Whangarei Terenga Paraoa

Te Kura Hourua o Whangarei Terenga Paraoa, based in Whangarei and sponsored by He Puna Marama Trust, was one of five PSKH that commenced operation in 2014. It is a co-educational secondary school for students in year 7 through year 13, which aims to raise the achievement of Māori students "by reconnecting them with an ethos of leadership and pride" (MoE, 2015a). He Puna Marama, established in 1997, has operated bilingual ECE since 2001.

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

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

Before its inception, the new school intended to collaborate with other schools in the Whangarei area so that its students would have access to specialist subjects. This would have maintained existing arrangements for the Leadership Academy cadets (MoE, 2015a). In practice, the school has found that relying on its own resources and working with tertiary providers are more feasible ways to meet the needs of its students. Seven of the school's eight teaching staff are registered teachers, while one part-time teacher is unregistered, as provided for in the PSKH initiative.

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

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

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

The ASB Community Trust (now Foundation North) played a significant role in providing funding and support for He Puna Marama to try a new way of dealing with an intractable issue.[24] This gave He Puna Marama the base to take advantage of a new government-funded opportunity to carry its vision further.

F3.3 Philanthropic organisations like to take a lead in demonstrating the success of innovative approaches to the design and delivery of social services. They look to the Government to pick up and fund those approaches that prove successful.

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

[24] A second partnership school, a primary school operated by Rise UP Academy in South Auckland, resulted from the Foundation North initiative to improve Māori and Pacific education. The school opened in February 2014.

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

Small size and lack of economies of scale are a particular issue with the establishment of new PSKH (Post Primary Teachers' Association, sub. DR216). Average funding for each student is much higher in small schools compared to larger schools.[25] As students are drawn from the catchment of existing state schools, the net result is an increase in the overall cost of schooling in an area. These extra costs need to be balanced against potential short-term and long-term improvements in student outcomes that might be achieved through establishing PSKH.

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

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

3.6 Commissioning to develop an effective managed market

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

A managed market for employment services in Australia

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

- The Department contracts with non-government providers (both not-for-profit and for-profit) to provide employment services for recipients of income support.
- The Department holds contract rounds (currently at 5-year intervals). Providers tender for a share of a regional employment services market. Prices are fixed. The market share of successful providers may be adjusted at a point within a contract period to reflect their relative success in achieving employment outcomes for clients.
- Each provider receives a star rating from the Department to reflect their success in achieving employment outcomes given the types of clients they are serving and labour market conditions where they operate. Star ratings are made public and also influence the Department's decisions on market share.
- Centrelink, a separate agency, administers income support. It assesses new applicants for their likely difficulty in finding employment and so the type and level of employment assistance they are eligible to receive.

[25] The Ministry of Education funds PSKH schools at the same rate as decile 3 state schools of a similar size (MoE, 2015a).

- Clients may choose a contracted provider or, instead, Centrelink refers them to one. Referrals broadly reflect the provider's contracted market share, but the rate of referral may vary somewhat above or below the contracted share (according to client choice and each provider's star rating).
- Contracted providers receive set payments for an employment service and for successful employment outcomes for clients (section 3.4). Payments reflect the assessed difficulty for particular clients in finding employment.

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

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

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

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

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

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

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

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

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

By April 2015, New Zealand had 38 registered CHPs of varying size and geographic spread. There were 5 000 properties owned by CHPs. Twenty-five CHPs had contracts with MSD to access the IRRS. CHPs were receiving IRRS in relation to 194 tenants. Government decided when it made the IRRS available to CHPs that

it would apply only to new tenants. In comparison, Housing New Zealand provides more than 60 000 tenancies which attract the IRRS.

3.7 Broad lessons

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

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

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

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

The CCN has made sustained progress in integrating health services in the Canterbury region and achieved improved performance relative to other major DHBs on a number of measures. The CCN's approach requires clinical and management leadership to bring together a complex range of technical capabilities, attitudinal shifts and organisational and contract design. Because of the complexity, the approach is neither easy to replicate nor to sustain (Chapters 6 and 10).

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

Social bonds can stimulate new approaches to old problems by paying investors returns on the basis of outcomes achieved, while avoiding tight prescription of services offered. While social bonds introduce parties able and willing to take some of the risk of innovation, they involve complex institutional and contractual arrangements, and take time and skill to set up. They may be most useful in discovering and demonstrating the effectiveness of new approaches to service delivery. If the approach proves successful, funding agencies could then apply it more widely using a service model best suited to large-scale roll-out (Chapter 6).

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

4 An assessment of the social services system

Key points

- Focusing on the social services system (rather than on specific services, programmes or providers) allows a broader understanding of the institutions and processes that shape the outcomes from government-funded services.
- This chapter concentrates on diagnosing the causes of the under-performance in aspects of the social services system noted in Chapter 2. Diagnosing the causes is a necessary step to improving the system.
- Reasonable consensus exists on what a well-functioning social services system should achieve. The current system significantly under-performs relative to the criteria for a well-functioning system.
- No single factor is the cause of the system weaknesses observed by the Commission. Rather, the weaknesses are due to a combination of factors.
  - Traditional delivery of public services takes place in vertical departmental silos. This causes frustration, wasteful duplication, and fragmented diagnosis and support. Fragmented service delivery can be particularly problematic for clients with complex needs that span the responsibilities of multiple agencies and ministers.
  - Few mechanisms exist to capture and analyse information on the impact and cost-effectiveness of services.
  - Previous attempts to reform the system failed because they did not address the underlying causes of problems.
  - Those with decision rights often lack the required information, incentive and capability to make decisions that fulfil the objectives of the system.
  - Many contracts for social services are highly prescriptive owing to traditional government accountability and delivery arrangements, and aversion to political risk. This prescription works against innovation and responsiveness to client needs.
  - Ambiguity often exists around whether government agencies are paying for specific services that they wish to buy, or are simply contributing to programmes originated by non-government providers.
  - There is room to improve the contracting and purchasing of social services. But there are limits to the gains that such activities will achieve.
  - Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the provider "ecosystem" is underdeveloped in some areas.
  - The organisational cultures of providers and government agencies tend to be resistant to change and are sometimes paternalistic towards clients.
  - Political pressures and institutional inertia make it difficult to re-allocate funding away from under-performing programmes.

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

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

4.1 A well-functioning social services system

Chapter 1 describes what a well-functioning social services system would look like from the perspective of New Zealand citizens, current clients, providers, social services agencies and the Government (section 1.3). While these perspectives have differences, the reasonable consensus is that a well-functioning social services system should:

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

Of course, achieving these desirable features requires funding and resources from both government and non-government sources. The problem is that funding and resources have always been – and always will be – scarce. The challenge is to set funding at the right level, and obtain the best possible outcomes within that limit.

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

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

4.2 Causes of system under-performance

Chapter 2 found a number of ways in which the social services system under-performs. This section briefly mentions these findings and then examines the causes of the main symptoms of under-performance.

System under-performance directly and adversely affects the experiences and perspectives of clients, providers and funders in different ways. System failure from a client perspective tends to show up in the following ways:

- being ineligible for any service, despite a client's need;
- poorly coordinated services;

- services that are not well matched to the individual needs of clients;
- services that address symptoms, rather than their underlying cause;
- having to provide the same (or substantially similar) information multiple times to access different services; and
- bouncing between services (or repeatedly accessing the same service) because of previous service failures.

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

The system failures that funders and commissioning organisations have experienced include:

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

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

Eight fundamental causes of under-performance in the current system are noted below.

- Government commissioning of services happens in silos, with each silo evaluating the need for services through its own specialised lens. No agency has an understanding of (or accountability for) the holistic needs of clients, and users of the system must navigate their way through multiple administrative processes.
- Incentives in the system drive prescriptive contracts, contracts of short duration and onerous reporting requirements. These features work against innovation and inject unnecessary transaction costs into the system.
- A lack of agreed measures of value inhibits knowledge about the impact of services. Commissioning agencies all too often are unable or unmotivated to redirect resources to more effective services and providers.
- Government decision makers have limited information on the combination or sequencing of services required by clients. The effect is that service specifications are too rigid to meet the needs of clients – particularly those with multiple and complex needs.
- Weak government stewardship of the supply-side of the social services system has contributed to the precarious financial position of some providers, an over-reliance of some agencies on particular providers, and providers often lacking the resources to invest in staff training, innovation and evaluation.
- Unsophisticated commissioning has resulted in formulaic procurement that is ill-suited to the complexity of social-services. There is a limit to the gains agencies can achieve by improving contracting out.
- Short-termism has led to missed opportunities in prevention and early intervention, escalating fiscal costs in the future.
- Funding and managerial inertia obstructs system improvements.

The following sections explain each of these fundamental causes of under-performance in more detail.

Government commissioning of services happens in silos

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

For example, budget appropriations are typically allocated to individual agencies along service lines (Chapter 2; eg, Vote Health, Vote Education, Vote Justice). The key benefit of this structure is to maintain strong vertical lines of accountability. Yet it has the effect of breaking services into highly functionalised and specialised administrative groups. Therefore, while many clients have several inter-dependent and mutually reinforcing problems, the system delivers assistance down discrete channels sometimes called "silos". A number of problems result from delivering services through separate silos.

The duplication of government processes: Clients often have to engage with multiple government agencies to access the services they require. This typically results in clients having to provide the same information multiple times – creating frustration and cost for the client. For providers, contracts with multiple government agencies often result in duplication of auditing and reporting processes – pulling resources away from higher-value uses (see Victory Community Health, sub. 5; South Waikato Social Services Collective, sub. 7; Supporting Families in Mental Illness, sub. 49; Wellbeing North Canterbury Community Trust, sub. 112; Presbyterian Support New Zealand, sub. DR186; Hui E!, sub. DR213; Ministry of Social Development, sub. DR224; Pact, sub. DR232).

Incomplete diagnosis of a client's problems and requirements: Because each service silo evaluates a client's needs through its own specialised lens, no agency gets a complete picture of the client's circumstances. This makes it difficult for any one agency to identify the combination of services that best meets the client's needs. The result is that silos often unwittingly create "failure demand" (Locality & Vanguard Consulting, 2014).

Failure demand occurs when clients receive services that fail to address the client's underlying needs. When the service does not help, the client finds their way (or is referred) to a different service provider who also has an incomplete picture of the client's circumstances. This increases the overall demand for services and pushes up total costs, yet does not resolve the issues that the client faces. The client's "actual demand" for services has not changed.

Repeated calls for more joined-up government: Problems associated with fragmentation are well known to government agencies and providers. Chapter 10 identifies more than 25 initiatives launched since 2000 with the aim of improving coordination within government. Yet these attempts to integrate have failed to address the silo architecture that created fragmentation in the first place. Consequently, calls for a more "holistic" approach to delivering services continue (see Age Concern New Zealand, sub. 100; Social Sector Trials, sub. 126; Community Networks Wellington, sub. DR159; Lifeline Aotearoa, sub. DR170; Tom Adson, sub. DR239).

The observations of the UK system made by Haldenby, Harries and Olliff-Cooper (2014) are relevant to the discussions in New Zealand:

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

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

> Today's public services are not designed for 'people who need help'. In the manner of a hospital set up to deliver a specific intervention – a replacement hip or cataract removal – they are designed to batch-process fixes for predefined one-off issues and then close the books. In consequence they are systems that assess rather than understand; transact rather than build relationships; refer on rather than take responsibility; prescribe packages of activity rather than take the time to understand what improves a life. As in any system that fails to solve the underlying problems, they amplify work, appearing

> frenetically busy while accomplishing less and less. Based on identifying needs rather than strengths, they fail to help individuals and communities build self-sustaining support systems that increase agency and independence, instead increasing resource consumption and dependency and accelerating decline. (p. 20)

Non-integrated silos also risk some clients being overlooked or given a lower priority than they would be if a whole-of-system view was used. This may occur, for example, where the costs of not addressing a client's needs fall on another agency. The risks attaching to such cases get "shifted"; they are not dealt with in a timely, cost-effective manner. Mansell (2015, p. 14) made the following observations about silo structures, and their tendency to produce fragmented and ineffective services for some clients:

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

Simply stated, in the current system there is no one with the specific mandate or incentives to focus on serving clients whose needs cross agency boundaries. This is especially the case for clients in quadrants C and D (Figure 2.8).

F4.1 Traditional delivery of public services takes place in vertical departmental silos. Particularly for clients with multiple and complex needs (quadrants C and D) that span the responsibilities of several agencies and ministers, this causes frustration, wasteful duplication, and fragmented diagnosis and support.

Mixed incentives

The actions of those working in the social services system are shaped by the incentives they face. Incentives often flow from rules and customs that constrain and influence the conduct of ministers, government officials, providers and clients. Rules include formal and enforceable rules (such as regulatory requirements and contractual provisions) and informal rules built on social and cultural norms of behaviour.

The social services system will work best when the incentives created by these rules steer those in the system towards improving the outcomes that matter – in terms of the wellbeing of clients and the wider community. Areas of the social services system exist where there are conflicting incentives or the alignment is not as strong as it needs to be.

Incentives from the political environment

Ministers operate in a highly contested and adversarial environment. The New Zealand Treasury (2011) noted:

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

Ministers can also have rivalries within the general envelope of collective responsibility.

In such an environment, government contracts are under persistent scrutiny by groups with an interest in discrediting government policies. The threat of opportunistic scrutiny provides a strong incentive for governments to use contracting approaches that minimise political risk – such as highly specific contracts and rigid performance reporting (Moszoro, Spiller & Stolorz, 2014). The threat of opportunistic scrutiny also

prompts government agencies to offer contracts of short duration, and works against relational contracting.[26] Providers often interpret these phenomena as indicating that the agencies do not trust them.

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

Chapter 2 noted the current environment in social services is not conducive to innovation both among providers and within government agencies. One reason for this is that contracting-out models that involve short, tightly specified contracts create little room or incentive for providers to experiment, or to share and adopt innovations. This is particularly the case where experimenting would mean providers investing in assets, relationships, personnel or processes that are specific to their current contracts. If the lengths of these contracts are short, providers have limited assurance that they will be able to recover their costs should the Government choose not to renew them.

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

More recently, the Better Public Services Advisory Group (2011) found that

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

In addition to political risk, the behaviour of officials is influenced by:

- accountability for allocated budgets, rather than the total costs to government and the wider public; and
- incentives for officials to manage *costs* to their specific agency, rather than the collective *value* created by all government agencies.

F4.2 Accountability and delivery structures within government agencies place a high emphasis on managing political risks and keeping expenditure within budget. Accordingly, officials use prescriptive contracts to manage costs and risks to their specific agency.

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

Birthright New Zealand noted:

> Contracts between Government agencies and providers are typically tightly prescribed and do not recognise the dynamic situations of the families we work with. The Growing Up in New Zealand longitudinal study report which focusses on vulnerability highlights the rate at which family circumstances may change. To ensure that services can be targeted to address need, contracts need greater flexibility. In some instances, longer term interventions may be required for children and families whether this is due to chronic health conditions or complexity of need. Contracts with providers should reflect that they are best placed to assess and identify how available resources are best matched to client need. (sub. 128, p. 4)

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

> [A]ccountability from the purchaser to the provider for the contracts and funding is still primarily based on volumes, inputs and outputs. Highly specified contracts are an important form of risk management for government in industries where there is great uncertainty about the outcomes, such as supplying

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

> social services to clients who may not agree they have problems they need to address. It gives some ability to identify and manage poor performance by agencies where this is captured by the measures used. However, when the level of specification interferes with the delivery of the service, there may be a case to rethink if contracted delivery is the best way of supplying the service. (p. 17)

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

Incentives from the competitive environment

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

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

The leads of the Social Sector Trials made a similar point,

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

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

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

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

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

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

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

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

At present, relatively little time is spent gathering evidence, evaluating it and spreading good practice. The effect is that commissioning agencies all too often are unable or unmotivated to redirect resources to more effective services and providers. Some aspects of the system support failure and do not reward success. Indeed, as noted, some incentives from competitive tendering actively work against the sharing of information.

Part of the explanation for lack of transparent measures and robust performance reporting is that this carries less political risk than an open approach dedicated to improving outcomes. The lack of visibility of performance occurs despite statutory obligations on departmental chief executives to advise ministers on the efficiency and effectiveness of interventions. MSD's Investment Approach is a welcome exception to lack of transparency, but it covers only services associated with work-related benefits. MSD initiated Investing in Services for Outcomes in 2012 to improve programme assessment and investment decisions in community and family support services. This included developing a strategy to guide purchasing decisions and other operational measures (Chapter 12). MSD published the strategy as the Community Investment Strategy in June 2015.

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

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

Decision makers often have limited information

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

By contrast, professionals hold important technical information about the service options available and the processes through which clients can access to services. Providers also often have deep local knowledge and networks that they can use to help meet the needs of clients.

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

Under the current system, many important decisions – such as which services should be provided and how – are made a long way from the people actually receiving the services. For some services this makes perfect sense (eg, prisoner transfer services). However, the more complex client needs become, the more unlikely it is that contracts written in government agencies will adequately reflect the diversity of client circumstances and requirements. Put another way, the more complex the needs, the greater the level of information and flexibility providers require to meet those needs. Much of this information sits with, or is close to, the clients. Inclusion Aotearoa noted:

> I believe there is a large gap between what commissioners believe happens on the ground and the reality. Many believe the services they commission are supporting people to have a good life and see little reason to change. They do not have the training or experience within services to know of the realities, they are rarely confronted with direct feedback from disabled people who receive services … This is especially apparent when commissioners are based in the cities far from the services they commission. (sub. DR140, p. 3)

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

F4.6 There is useful information at all "levels" of the social services system, but decision makers frequently lack important information required to make good decisions.

Weak government stewardship of the supply-side of the social services system

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

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

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

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

> An alternative way to look at this issue is to cast "mutual dependency" as the essence of partnership. There may be risks for government agencies and service providers in monopsony/monopoly situations, but this is an inherent feature of New Zealand being a small market. Attempting to introduce competition among service providers where there is not sufficient capacity or capability tends to damage the limited capacity or capability that is available, with a corresponding decrease and disruption to the quantity or quality of the services available. There are real examples where this has happened in the last few years. (Carers New Zealand, sub. 71, p. 7)

> Clients need choice. They need to be able to choose between providers based on culture, the services they deliver and whether it best meets their unique needs. Where and who a client receives services from is usually decided by a government agency and client choice is not readily supported.
>
> However funding hundreds of small non-government agencies to achieve provider diversity costs not only in terms of contract management and auditing but is compromising the sustainability of the entire system. (Wise Group, sub. 41, p. 25)

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

- individual parts of government each focusing on their own contracts without seeing the big picture, and the overall impact that government purchasing behaviour is having on the character of the supply-side;
- tight budget limits that lead government agencies to underfund some contracts, which can threaten the viability of providers over time;
- insufficient understanding of the ability of providers to manage risk, and inefficient allocation of risk between the funder and the provider; and

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

F4.7 Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the provider side of the market is distorted and underdeveloped in some areas.

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

Limits to contracting out

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

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

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

So what can be achieved within top-down approaches appears to have natural limits, especially when measures of the value-for-money of different interventions are not agreed. This makes it important to develop measures of value and explore other approaches. Chapters 5 and 6 examine the questions of institutional design and the commissioning of social services to help develop alternative approaches that perform better.

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

Missed opportunities for early intervention

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

- a lack of measures and data that enable quantification of the value of such investments (again the exception is MSD's Investment Approach, which quantifies the effects far into the future of current interventions);
- current budgeting and decision-making practice does not apply consistent trade-offs between current and future benefits;
- poor incentives to make social investments with long payback periods in areas without a history of universal provision (such as schools and hospitals);

- insufficient information to enable good targeting of early interventions, with a consequent risk of too many false positives and too many false negatives;
- uncertainty about whether the long-term benefits of the investments will actually be realised because they may not be implemented well; and
- fiscal constraints, which limit the ability of governments to spend now on preventive approaches to save costs in future periods.

Obstacles to system improvement

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

Investment in the status quo

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

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

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

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

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

Seeing only a small part of the system

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

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

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

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

Competing worldviews

Strongly held worldviews interact with knowledge gaps to create wide differences of opinion on many subjects among system participants. The diversity of opinion on the desirable size and organisational form (for-profit versus not-for-profit) of providers offers a good example (Box 4.1).

Box 4.1 **Submissions on the desirable size and organisational form of providers**

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

New Zealand Council of Trade Unions

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

Blind Foundation

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

The Impact Collective

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

Otago Youth Wellness Trust

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

Barnardos

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

Footsteps Education

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

Franklin Family Support Services

> We argue strongly for the value of the smaller organisation's part in the larger service model and note that in smaller communities there is far more value achieved simply through community members who either work or volunteer contribute far more than they would as just another staffer in a larger organisation. (sub. DR228, p. 4)

Methodist Mission Southern

> … commercialisation of the sector (client choice, voucher funding) and tolerance for risk will undoubtedly provide for the kind of organisational failure rate seen in the commercial sector (around two-thirds over 10 years), with consequent disruptions to service provision, building of client resistance, and lack of uptake of support. (sub. DR135, p. 2)

South Waikato Social Services Group

> We submit that open-mindedness about the size/organisational form of providers is an essential part of the commissioning process, as one size does not fit all and it should be included in the steps followed by commissioning agencies. (sub. DR185, p. 2)

Waimakariri District Council

> From the perspective of the organization letting contracts, the larger the organizations that it works with the fewer contracts likely to be involved making administration easier. [However] it is also important to recognize that larger organizations have the potential to develop management structures that are distant from the communities to which they deliver services. While not necessarily the case in every instance, this may lead to the imposition of corporate style approaches to service delivery.
>
> Smaller organizations, particularly those with community governance, are likely to be closer to their communities and more sensitive to the needs of their people, thus in a better position to tailor service delivery within the parameters of their contracts to the needs of their community. (sub. DR240, p. 5)

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

The strong sense of mission of social services providers offers many advantages (Appendix F), but can create a formidable barrier to change should it lead to intransigence over means. Partnerships require compromise and flexibility on all sides, and strongly held worldviews can be a barrier to constructive partnership.

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

Organisational culture

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

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

> There is a saying 'culture eats strategy for breakfast' – meaning culture in an organisation plays a defining role in how the organisation performs – how it innovates and how it operates in a changing landscape. That's the case for both the government and for the Social Sector. The impact of culture and leadership is evident in EVERY service area. (Age Concern New Zealand, sub. 100, p. 11)
>
> In our view, the success of the Government's change to funding for outcomes with integrated contracts depends on achieving a complete change of culture in the funding agencies and the providers of Family Start. This will take some time and good, consistent leadership. (Myra Harpham & Jennifer Coote, sub. 106, p. 16)

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

> Government officials often think they know best when in the disability sector they often don't and the real innovation which is in the community is either lost or not funded through the Government initiatives that Officials develop. (Workbridge, sub. 102, p. 9)
>
> Historically, disability support and services have been heavily steeped in paternalistic and charity approaches. Thanks to the civil rights, women's rights and disabled people's rights movements, things have moved on.
>
> However, many disability support services are still operating in old and outdated frameworks and policies, and not realising disabled people can determine their own lives. Whilst the Government [has] developed some high level principles of engagement and a few small pilot programmes looking at changing disability support services, most decisions continue to be made with little or no regard to the voice and perspectives of disabled people or the expertise of disabled advocates and Disabled Person's Organisations. The overall impression is that Government systems are still largely operating in paternalistic frameworks. (Disabled Peoples Assembly, sub. 54, p. 6)

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

4.3 In a nutshell: system weaknesses and their underlying causes

Thousands of people in government agencies, provider organisations, communities and families help to deliver social services. Taken as a whole, these people and the services they provide are part of a system that is shaped by political and legal institutions, the economy, history and social and cultural norms. The system characteristics in turn influence how, where and by whom social services are delivered and the outcomes achieved – good and bad.

With the huge number of people involved in the system, including clients with their widely varying circumstances and needs, the system is very complex. It is impossible for central government to understand all the processes and interactions that influence system outcomes. The centre simply does not have the information nor the levers to steer the system in a precise way to a pre-determined destination.

In the Commission's view, the current social services system is not well suited to manage this degree of complexity. Government agencies that seek to promote the judicious use of public funds, coupled with political debate and close media scrutiny, are vital parts of New Zealand's democratic system. Yet the resulting grouping of responsibilities into specialised agencies means agencies often fail to work effectively with each other. And when an adverse event or poor outcome hits the media, ministers often respond along narrow agency lines rather than take a wider system view.

The system in which siloed government agencies directly provide social services, or purchase them from others, sometimes works well but quite often does not. A single agency will often not recognise or respond effectively to the inter-connections between the outcomes it is seeking, and those sought by other agencies. This fragmentation means no one can see the system as a whole or see its performance.

The strong vertical lines of accountability in government silos run all the way from ministers to the frontline of services delivery. The need for accountability and political risk management favours the use of prescriptive contracts, short contract periods and onerous reporting requirements. These factors work against the development and spread of innovation and discourage productive and trusting relationships between government agencies and non-government providers.

Despite its shortcomings, most New Zealanders are able to navigate the system to access the social services that they require. Yet the system badly lets down those in society with complex needs that span across the silos, and who lack the capacity or motivation to extract what they need for support and to help turn their lives around.

For these people, accessing the services they need, in the form that they want them, and when they want them, is extremely difficult. The result is that requirements go unmet, opportunities for early intervention are

lost and disadvantage perpetuates. For taxpayers it often means the fiscal cost of the system escalates as people re-enter the system at a later date at more costly intervention points – such as emergency units and prisons. For the people themselves, their children and wider society, the human costs are extremely high.

Over the years, many in government have recognised the problems of silos and made numerous attempts to strengthen the horizontal "glue" across agencies. These efforts have tended to focus on "joining up" at the top – often through ministerial or chief executive working groups – with the hope that the connections between silos will filter down to critical points closer to the frontline. However, what such initiatives can achieve within the existing structures of government has a natural limit. Improvements are needed, particularly to break the cycle of disadvantage.

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

Table 4.1 Summary of system weaknesses and their underlying causes

Weakness	Underlying causes
Difficulty dealing with multiple and inter-dependent problems	Services delivery is fragmented between multiple government agencies (silos); vertical accountability arrangements limit focus on the holistic needs of individuals; prescriptive contracts do not adequately account for the complexity of client needs and circumstances.
Little visibility of the services (or interventions) that work well and those that do not	No agreed measures of value; few mechanisms to capture information; fragmented information systems; performance management processes that are built around accountability requirements rather than learning and knowledge sharing.
Conditions unconducive to innovation and learning	Prescriptive contracts aimed at minimising political risk; competitive tendering processes that reduce incentives to share information; few positive incentives to innovate.
Excessive transaction costs	Tightly prescribed systems and processes aimed at minimising political risk (eg, by creating a "paper trail"); overuse of contracts as a method of allocating funding; duplication of administrative processes across government agencies.
Poor coordination of services and administrative processes between government agencies	Reliance on traditional government institutions and government agency structures (silos); lack of overall system view and stewardship.
Poor targeting of services to client needs	Decisions made by officials at a distance from clients (and lack of information on client-specific circumstances); few mechanisms for capturing information on the services and interventions that are successful.
Missed opportunities for early intervention	Fragmented service delivery and accountability arrangements, making it difficult to see the holistic requirements of clients; short-term political horizons; lack of transparent measures of value; fiscal limits constraining upfront investments in prevention.
Too little evaluation of existing services	Desire to avoid the political risks of finding programmes are ineffective; lack of agreed measures of value; reporting requirements focused on narrow accountability rather than on outcomes and learning.
Financial and capability weaknesses among providers	Inadequate management of the provider market; overuse of the contracting-out model; tight funding of contracts.
Government overlooking its potential to shape the ecosystem of social services providers	Individual parts of government each focusing on their own contracts without seeing the big picture and the overall impact of government purchasing behaviour; tight budget limits lead government agencies to underfund some contracts; insufficient understanding of the ability of providers to manage risk.

4.4 Scope for system improvement

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

- greater visibility and articulation of a system-wide perspective on performance;
- purposeful stewardship by the Government of the overall system within which social services are delivered (Chapter 5);
- a more sophisticated and systematic approach to commissioning social services (Chapter 6);
- increased visibility of the full range of benefits and costs of different services for different client types (Chapters 6, 8 and 9);
- encouraging a system that learns and innovates (Chapter 7);
- greater use of data and analytics (Chapter 8);
- devolve budgets and decision making to an entity tasked specifically with improving outcomes for people with multiple and inter-dependent problems who need help in navigating services (Chapter 10);
- greater use of client-directed and other devolved approaches (Chapters 5, 6 and 11);
- improved contracting and purchasing, including contracting for outcomes (Chapter 12); and
- openness to opportunities to partner with Māori groups to meet their aspirations and needs (Chapter 13).

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

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

Part Two: What is needed for improvement?

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

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

- Chapter 5 sets out and explores the strengths and weaknesses of two broad *architectures* that can be used to commission and deliver social services. It finds that devolved approaches offer significant advantages over the status quo.
- Chapter 6 explains and explores *commissioning* – the set of important inter-related tasks that need to be undertaken to turn policy objectives into effective social services.
- Chapter 7 makes the case that improving social services requires a system that learns – one that tries a variety of innovative approaches, selects what works, ditches what does not, and expands successful approaches.
- Chapter 8 describes the opportunities increasingly offered by expanded datasets, new information technologies and data analytics to track the value add of services for different types of clients, and how this can greatly improve return on investment. It explores ways to expand data sharing safely to increase innovation and effectiveness.
- Chapter 9 explains the Government's *Investment Approach*, and argues for its extension. It explains *social insurance*, using the Accident Compensation Corporation and Australia's National Disability Insurance Scheme as examples.
- Chapter 10 identifies two areas where the net benefits of integration are likely to be large. The first area is social services systems with complex inter-connected service pathways. The second area is services for the most disadvantaged New Zealanders with multiple, complex needs.
- Chapter 11 makes the case that greater devolution of choice and control to individual service users will produce better outcomes in many situations. The chapter explores the mechanisms and models that could empower service users, increase choice and spark innovation.
- Chapter 12 examines the use of contracting out in New Zealand. The chapter covers why contracting is both attractive and challenging for government agencies and why the model has limitations. The issues raised by inquiry participants are summarised and opportunities for improvement explored.
- Chapter 13 explores the inquiry's themes and findings from a Māori perspective, including Māori concepts of respect and caring, Treaty obligations, and what the Treaty means for partnership and devolution in social services. It describes the governance arrangements of several Māori-Crown collaborations on social services.

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

5 System architecture

Key points

- Responsibility for the social services system is shared. Individuals and those in their natural support networks (family, friends, workplaces etc.) have responsibility for social outcomes. Collective responsibility for supporting people in need is expressed through many organisations and institutions, including government.
- Social services form a complex system, the overall effectiveness of which is a function of the actions of all participants, the formal and informal rules that influence those actions, and the relationships between those participants. Those rules and relationships define the *architecture* of the system.
- Governments have paid considerable attention over the years to developing programmes aimed at specific social services or client groups. Relatively little attention has been paid to the system architecture. The current arrangements may not be the best of the available options.
- Two broad architectural designs are applicable to social services:
  - *top-down control* means that decision-making power primarily sits with the relevant minister or chief executive of the agency; and
  - *devolution* transfers substantial decision-making powers and responsibilities to autonomous or semi-autonomous organisations with separate governance.
- The crucial consideration in choosing between these broad architectures is whether decision makers have the authority, information, capability and incentives to make and implement decisions that maximise social returns.
- Top-down control is common in New Zealand in some social-services areas. To control risks, hold others accountable and maximise options to respond, governments often favour prescriptive service specifications and close, top-down control. This is a poor match for situations where clients require services tailored to their specific needs (quadrants C and D).[27]
- The social services system would be improved by greater use of devolution. But devolution is not a panacea. For example, it can dilute accountability and dampen the spread of innovation. For devolution to be most effective, it needs to be complemented with other measures. Some of these may, somewhat counterintuitively, require increased centralisation.
- A one-size-fits-all architecture across social services is not a sensible approach. The need to accommodate clients who vary widely in circumstances and needs points to designing a system with several different architectures. A one-size-fits-all approach has been ineffective in tackling the unacceptable number of New Zealanders who suffer serious disadvantage on account of multiple and complex problems.
- Government cannot delegate some important roles. It is the major funder of social services; and only Parliament, led by the Government of the day, can legislate and assign regulatory powers. Government has responsibility for creating and maintaining the "enabling environment" for the social services system.
- System architecture and the enabling environment require active management if social services are to be effective. This active management is the role of a *system steward*. The current arrangements fall short of what is required of a system steward.

[27] See Chapter 2 for a description of the quadrants.

Responsibility for the social services system is shared. Individuals and those in their natural support networks (family, friends, workplaces etc.) have responsibility for social outcomes. Collective responsibility for supporting people in need is expressed through a plethora of organisations and institutions, including government.

Social services form a complex system, the overall effectiveness of which is a function of the actions of all participants, and the relationships between those participants. Those formal and informal relationships define the structure or *architecture* of the system. Section 5.3 describes two broad architectural designs – top-down control and devolution – and contrasts their strengths and weaknesses in the context of social services. Top-down control appears overused and the Commission sees much potential for increased devolution.

Government has a unique role as the major funder of social services, and has statutory and regulatory powers unavailable to other participants. More than any other party, its decisions have the potential to affect the system's architecture, and therefore its effectiveness. The question for government is how to set an overarching framework in which the parts work well. Yet government control in modern democracies is far from complete, and substantial change will require broad support from non-government participants.

Government also has responsibility for the "enabling environment" for the social services system (section 5.4). Three enablers are particularly relevant to improvements in social services: budget appropriations, data infrastructure and regulation.

A complex system needs oversight and stewardship. Section 5.5 explores these concepts, and how current arrangements fall short of ideal.

5.1 The broader context of social support

Responsibility for the social services system is shared. Individuals and those in their natural support networks (family, friends, workplaces etc.) have responsibility for social outcomes:

> [I]t is hard to consider the effectiveness and efficiency of government funding for the production of social services without looking at the interface between government production and family production, and government production and community production. (John Angus, sub. 109, p. 5)

> Whilst few NGOs will report this, the most vulnerable people in NZ will not go to them for help. The most vulnerable will turn first to a family member or friend. (Richard Wood, sub. 18, p. 1)

Collective responsibility for supporting people in need is expressed through a plethora of organisations and institutions, including government. While the devolved arrangements discussed and recommended in this chapter move decision making further away from ministers and departmental heads, they do not go very far towards answering the more basic question of where the boundaries of responsibility best lie. It is clear that these boundaries have shifted over time (Chapter 2).

Some demographic and social changes will likely lead to increased pressure on government and government-funded social services (Chapter 2). For example,

> …the trend for more women participating in the paid workforce is reducing the number and calibre of people available for volunteering. (Waimakariri District Council, sub. 75, p. 3)

Individuals and families are often best placed to resolve the social problems they encounter. However, where this is not the case, assistance must come from others.

Some inquiry participants felt that this assistance was best addressed by local communities, and the social services providers associated with them, taking a leading role. In this model, government would play a largely passive role, providing funds with few strings attached. The Commission believes that the social services system would be improved by greater use of devolution. Yet such devolution cannot be entirely unfettered, because democratic principles mean government being appropriately accountable to Parliament for how funds are spent.

Further, devolution might lead to inefficient or inequitable resource allocation. The state can re-distribute resources across the country to match need. It is unrealistic to expect local communities – acting independently – to be able to make such an equitable allocation.[28]

No simple solution is likely to suffice. A complex nexus of expectations and responsibilities links individuals, families, social networks, voluntary/collective organisations and the public sector. Each of these has relative advantages and disadvantages in meeting those expectations and bearing such responsibilities.

There are a variety of views about where responsibilities best lie:

> [I]t is due to government reneging on its responsibility that volunteers are forced to fill the gap / meet the need of the community. (Community Networks Wellington, sub. DR159, p. 3)

> There is a need for careful consideration and open dialogue of the responsibilities that should be tagged to volunteers and community groups, vis-à-vis families, non-government social service providers, and the state. (Social Sector Trials leads, sub. 126, p. 3)

Government should be cautious in extending (or withdrawing) its responsibility, and do so only where evidence exists of wide community backing for such change and a reasonable expectation of improved overall outcomes.

Is government crowding out other sources of social support?

The concern is sometimes expressed that an expanding role in social services for government is simply "crowding out" – substituting for – voluntary/collective efforts. This view suggests there is no net gain to government taking on additional responsibilities.

The Chairman of Australia's National Disability Insurance Agency pointed out that family has an ongoing role in caring for family, with judicious support from government. He noted that government is a minority provider of disability support:

> With 80% of supports for people with disability being provided informally by families and friends and 20% by governments, every 1 percentage point decline in informal support capacity has led to about a 5% increase in demand for government funded disability services. (Bonyhady, 2014a, p. 3)

On the other hand, caring by family members can have an opportunity cost if it means those carers are excluded from the regular job market. In recommending a National Disability Insurance Scheme, the Australian Productivity Commission

> concluded that the economic benefits of the Scheme would significantly outweigh the costs, estimating that the NDIS would add close to 1% of GDP, primarily through increased employment opportunities for people with disability and their carers. (Bonyhady, 2014a, p. 4)

Also, from the perspective of many not-for-profit (NFP) providers, demand for their services is higher than they can meet. Should government take on part of that demand, there are still plenty of clients that could benefit from voluntarily provided services.

This discussion suggests that the "crowding out" effects of government service provision will depend on the specific service details.

5.2 Governments have paid relatively little attention to system architecture

Over the years, governments and government agencies have paid considerable attention to developing programmes aimed at specific social services or client groups. Yet they have paid relatively little attention to

[28] This problem might be directly addressed by joint action across local communities. However, the structures required to do this, and the behaviour engendered, may be somewhat similar to those that the state uses.

the overall system architecture.[29] But circumstances change, and even ideal designs become less ideal over time unless systems learn, evolve and, when necessary, take bold steps.

Chapters 2 and 4 listed many reported shortcomings of the social services system, and some of their potential causes. These shortcomings have been known for a long time. They remain despite well-intentioned attempts to address them. Some, perhaps many, of those attempts treated symptoms, rather than identifying and addressing underlying causes that arise from the way the overall system operates.

This chapter adopts the term *system architecture* to describe the high-level design of a social services system. Government has control over significant parts of this architecture, including the government organisations involved, their roles and authority, and the basis of their relationships with other system participants. Exercising this control is the responsibility of government, acting on behalf of its citizens. Citizens have multiple, potentially conflicting, interests in the social services system, including as clients, future clients and taxpayers.

It is crucial that the system architecture supports the features of a well-functioning social services system (as discussed in Chapters 1 and 4). Poor architectural choices are difficult and costly to remedy at lower levels of the system.

5.3 Broad architectural designs

Two broad architectural designs are applicable to social services: *top-down control* and *devolution*.

- *Top-down control* means that primary decision-making power sits with the relevant minister or department head.
- *Devolution* transfers substantial decision-making powers and responsibilities to autonomous or semi-autonomous organisations with separate governance.

The following subsections explore these broad architectures and some important variants of them. Table 5.1 lists these architectures and their variants, along with some New Zealand examples.

Table 5.1 System architectures with New Zealand examples

Broad architecture	Variant	New Zealand example
Top-down control	Classic	Department of Corrections
	Investment approach	Ministry of Social Development[1]
	Joined-up government	Social Sector Trials
Devolution	Place-based	District Health Boards
	National	Pharmac
	Community of interest	Whānau Ora Commissioning Agencies
	Co-governance	Te Hiku Social Accord
	Social insurance	Accident Compensation Corporation

Notes:

1. As at August 2015, MSD's Investment Approach applies to income support and employment services only.

[29] Health may be an exception to this general statement. "Since 1983 the New Zealand public health sector has undergone four structural transformations. With each change there has been a new set of organisations to fund and deliver health services: 1983-1993 Area Health Boards (AHBs); 1993-1997 Regional Health Authorities (RHAs) and Crown Health Enterprises (CHEs); 1998-2001 Health Funding Authority (HFA) and Hospital and Health Services (HHSs); and 2001 District Health Boards (DHBs)." (New Zealand Medical Association, sub. 39, p. 5)

Top-down control emphasises standardisation and risk management

Top-down control of social services is common in New Zealand. Control is exercised through the allocation of funds, by attaching conditions to funding, through regulation and administratively. These controls are supported by extensive reporting requirements and compliance testing.

Classic top-down control

Top-down control is strongly embedded due to a fear of misusing public money as opposed to seeing public funds used differently and more effectively. Top-down control is implemented in practice through hierarchical structures. Top-down control facilitates strong risk management, but tends to dampen innovation because:

- experimentation is limited to relatively "safe" dimensions;
- adaptation to local conditions is constrained, reducing the possibility of serendipitous findings that are more widely applicable; and
- pressure to adopt "best practice" can lead to a one-off improvement, but eliminate service variations that might form the basis of future best practice (Chapter 7).

Top-down control emphasises standardisation. Performance is driven through setting measures and targets and holding agencies and non-government providers to account for their delivery (see Box 5.1). But top-down control is limited in its ability to adapt services to the needs of specific clients and families and to local circumstances. The services provided by different organisations may be poorly integrated. Top-down control is likely to be inefficient where these needs and circumstances vary significantly, and the information needed to tailor responses to those circumstances is not available centrally.

Box 5.1 **Using targets to drive performance**

Le Grand (2007) uses the terms "targets and performance management" and "targets and terror" to describe top-down control. These terms reflect the usual approach to improving service delivery under such models. Targets defined at a high level and driven downwards can create substantial one-off performance improvements (eg, Connolly, Bevan & Mays, 2011). Targets combined with top-down control are particularly effective in moving service performance from "awful" to "acceptable" levels, yet are less suitable for further improvement (Barber, 2015).

Targets are less sustainable over the long term as organisations find ways to "game the system"; that is, increase their measured performance in ways that do not improve the "real" or intended outcome (eg, Besley, Bevan & Burchardi, 2009). Gubb and Bevan (2009) saw gaming as a consequence of targets being taken seriously:

> There is evidence of three types of gaming: neglect of what has not been targeted (such as, value for money), manipulation of data (for waiting times and ambulance response times), and "hitting the target and missing the point" (for example, by cancelling and delaying follow-up outpatient appointments, which were not targeted). [UK] Labour's target regime is the worst system ever invented, except for all the others (as Winston Churchill famously described democracy). Gaming does not mean that we ought to reject targets but rather that they are being taken seriously; we should therefore make audit and random checks on gaming practices integral to an effective regime of targets.

In response to gaming, it is typically necessary for governments to revise targets frequently. A downside of constantly moving targets is the de-motivation of staff (Le Grand, 2007). Staff motivation is also negatively affected by the reduction in professional discretion inherent in top-down control.

Quality shading is another problem in target-driven systems. *Quality shading* means increased effort to achieve measured targets at the expense of lower effort on non-measured aspects of service quality (Appendix F). A related concern is that apparently genuine improvement in a service may be accompanied by costs to other services (Bevan & Hood, 2006).

Likewise, the strong accountability of top-down control can discourage effective performance measurement and evaluation. Robust evaluations expose governments to opportunistic scrutiny and criticism (Chapter 4). From the perspective of those who might be held accountable, such evaluations are more likely to deliver bad news than good.

The need for transparency and accountability under budget rules means that ministers and third parties focus their attention on dimensions that are readily measurable. As a consequence, social services programmes are often assessed in the political arena in terms of budgetary commitments (ie, dollars spent) rather than in terms of client outcomes. But dollars spent may bear little relation to actual outcomes achieved.

Top-down control with an investment approach

The Ministry of Social Development (MSD)'s Investment Approach (Chapter 3) contains features that potentially improve on the less desirable characteristics of top-down control. It does this primarily through creating new performance measures (eg, future benefit liability, return on investment), which can be aggregated within silos and compared across silos. These are much better measures on which to hold political decision makers accountable than the typical alternative of dollars spent.

An expanded investment approach could increase cross-organisational cooperation and reduce incentives for shifting both cost and risk (Chapter 9).

An investment approach within a top-down control architecture also permits rapid experimentation on at least some dimensions, led by the operational arm rather than the policy arm of the organisation.

An investment approach – particularly if broadened along the lines discussed in Chapter 9 – may mitigate some, but not all, of the problematic aspects of top-down control. Better performance measures can only mitigate the risks of quality shading if they capture all relevant aspects of quality, which is inherently difficult to do.

An investment approach improves the information available to top-down controllers. This enables (but does not require) tighter monitoring of frontline staff and providers. Such monitoring can conflict with staff trust and loyalty (Frey, 1993). Greater monitoring can be de-motivating if staff perceive it as a sign of distrust. Increased monitoring supports increased service specification, with likely negative effects on efficient adaptation to local and client circumstances.

While MSD's Investment Approach was conceived as an adjunct to top-down control, the approach is not intrinsically tied to that architecture. With appropriate supporting infrastructure, some – perhaps all – of its advantages may be available in devolved architectures (Chapter 9).

Joined-up government

The Government has pursued various initiatives headed by cross-agency coordination structures (Table 5.2). Examples include the Social Sector Trials and Enabling Good Lives. These "joined-up" approaches can be seen as an attempt to break down traditional silo-based delivery of services. These initiatives have had varied levels of success (Chapter 10). Coordination costs are high and, despite much attention to structures that join up at the ministerial and senior staff level, flexibility "on the ground" can be elusive. Such approaches run the risk creating new silos with their own problems of top-down control.

The Social Sector Board, which oversees many of these initiatives, recognised their limitations:

> SSB … acknowledges that there are limits to what can be achieved through collaboration. (Social Sector Board, sub. DR225, p. 1)

Improved coordination is a useful response to many of the problems that governments face. But it is not a generic solution to the problems of top-down control.

Considerations for choosing to use top-down control

In some cases top-down control will be the option that best balances competing requirements. Demands for political accountability will always be high for the use of coercion, and top-down control is good at providing

accountability for procedural correctness when coercive powers are used (eg, statutory child protection). And it can be efficient to bundle other services with the use of coercive powers.

Top-down control emphasises accountability and political responsiveness, but at the expense of collaboration, flexibility and innovation:

> In my experience the discourse on coordination, cooperation and collaboration across government departments in the social services sector, in particular around families and children, has gone on in Wellington for at least 30 years. The current Minister of Finance himself has been speaking about it for 24 years. Unfortunately little has changed. What has been put in place is a succession of new cooperative initiatives with aspirational programmes and even more aspirational names, but the reality does not match the rhetoric…
>
> Much of what drives non-collaborative behaviour is issues of accountability and power. The new public management paradigm in the late 1980s set in place very strong lines of vertical accountability from front-line to the Minister. While an excellent initiative it did make cross-departmental collaboration more difficult.
>
> A second even more important factor is power. Collaboration requires some devolution of power from the centre. The executive arm of government in NZ is characterised by a very strong and deliberate nexus of power between individual ministers and their CEs, sustained by the two common ministerial goals in the social services of leaving a legacy of programmes and pleasing the 9th floor of the Beehive. (John Angus, sub. 109, p. 7)

Where top-down control remains the best option, it needs to be designed with an eye to achieving service integration when appropriate. As Chapter 10 emphasises, service integration is particularly important for clients with multiple, complex needs. Collaboration across silos is particularly important in such situations – but top-down control makes such collaboration difficult to achieve. The difficulties of achieving service integration suggest a preference for greater use of devolved approaches where possible.

F5.1 Top-down control emphasises standardisation and risk management, but has significant limitations. Using more devolved approaches may achieve substantial improvements in the performance of social services.

Devolution brings more actors and capabilities into decision making

Devolution can overcome some of the challenges posed by top-down control. It can bring in a greater range of actors and capabilities in decision making, which can lead to improved decisions. Should it move decision making to the communities affected by those decisions, devolution can enable and empower those communities to improve their wellbeing (see Chapter 13 for a discussion of this in the Māori context):

> Decentralised systems have some advantages over centralised systems. Through closer proximity, localised entities may offer greater opportunities for the consumers of social services to have meaningful input into their design and delivery, may be more immediately responsive to the needs of the communities or regions under their remit, and may be able to be held more directly accountable for the quality of those services. (Human Rights Commission, sub. DR202, p. 2)

Greater devolution may reduce the impact of the incentives that work against innovation in the core public sector. These are explained more fully in Chapter 4 (section 4.3). Briefly, political risk and the rigidity it engenders can pose barriers to diversity and experimentation. This rigidity also means that the current system exerts overly strong pressure to select "safe" services that are unlikely to cause political problems for officials and ministers.

Devolution is not a panacea (Box 5.2). For example, it can dilute accountability and dampen the spread of innovation. For devolution to be most effective, it needs to be complemented with other measures. Some of these may, somewhat counterintuitively, require increased centralisation. In practice, it may be impossible to devolve decision-making responsibilities to frontline service workers, or to clients, without certain functions being more strongly centralised. An integral part of system design is this unbundling of the various elements of a social service, relocating them across the system and recombining them in different ways.

Box 5.2 **Potential weaknesses of devolution**

Simple devolution has potential weaknesses. Examples include capture of local decisions 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 framework of public accountability.

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 devolved system 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.

A devolved system supports adaptation to local conditions and permits innovation. It does not, of itself, encourage the spread of successful innovation. Devolved systems that are poorly designed can allow good performers to co-exist with bad performers, with no pressure on the latter to improve.

Devolved systems that do not effectively address these potential weaknesses may perform no better, or indeed worse, than top-down alternatives. There are trade-offs between centralised and devolved systems (NZPC, 2013a). These trade-offs are context- and service-specific, and an understanding of them is crucial to the efficient allocation of decision rights and responsibilities.

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 (Chapter 11). 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, the Crown cannot devolve some responsibilities. These include international commitments on human rights, where New Zealand is party to an international agreement or treaty:

> International human rights obligations require that devolved authorities have the necessary financial, human and other resources to effectively discharge the government's responsibilities as regards human rights treaty implementation. Decentralisation of power, through devolution or delegation of executive authority, does not reduce the direct responsibility of the Government to fulfil its human rights obligations. (Human Rights Commission, sub. DR202, p. 3)

Under the Treaty of Waitangi the Crown has duties and obligations that derive from Articles Two and Three. These include active protection of Māori interests and the protection of tino rangatiratanga (Chapter 13). When responsibility for social outcomes is being devolved to Māori, care is needed to ensure that the Crown's responsibilities are fulfilled.

This subsection examines five types of devolution, based on place, national service agency, community of interest, co-governance and social insurance.

Place-based devolution

Many submitters drew the Commission's attention to the disadvantages of centralised decision making. For example:

> …centralised decision-making [is] too often disadvantaging to isolated, smaller or rural regions … cultural and regional needs [are] not well enough considered, especially in rural areas. (National Council of Women of New Zealand, sub. 20, p. 2)

> …local decision making is critical to service delivery. Social services have developed as a response to the needs of different communities. There is a risk that decisions made at the national level may not account for regional variation. (Supporting Families in Mental Illness New Zealand, sub. 49, p. 7)

Other submitters identified costs imposed by additional levels of decision making and reporting, and fragmentation into regional markets:

> As a national organisation we work directly with few government purchasers who centrally manage contracts. It would significantly increase our overhead costs if we had to negotiate individual agreements at a regional level, if for instance [District Health Boards] were given responsibility for the local purchase of sensory disability services. (Blind Foundation, sub. 16, p. 14)

> A micro-economic issue that has not been fully addressed in the report is the scalability of specialist providers. The draft report does not discuss the impacts that artificially constructed regional markets will have on providers' ability to fund training, professional development and invest in capital infrastructure. (Blind Foundation, sub. DR209, p. 2)

> For one major contract, RA is currently required to write about 35 narrative reports quarterly to meet reporting requirements for different funding streams (regional and central funding). (Relationships Aotearoa, sub. 56, p. 8)

It is instructive to look at three New Zealand examples of place-based devolution: District Health Boards (DHBs), Tomorrow's Schools and local government.

District Health Boards

New Zealand has 20 DHBs, each governed by a board of up to 11 members. Each DHB board sets the overall strategic direction for its DHB and monitors its performance. The Minister of Health appoints up to four members to each board, and the board's chair and deputy chair. Seven members are publicly elected every three years at the time of local government elections. DHBs have both a funding arm (which purchases services for the district) and a provider arm (largely hospitals).

DHBs are reliant on central government for almost all their funding. They operate in a complex environment of legislation, regulation and contracts with central government. While these place significant constraints on their policy and operational flexibility, some DHBs have managed to be quite innovative within these limits (Chapter 3 and Chapter 10). Yet such innovations appear to be slow to diffuse to other DHBs. The Ministry of Health benchmarks DHB performance and publishes inter-DHB comparisons to encourage improved performance by the laggards.

The ability to mute political risk (or at least to mute over-reactions to avoid political risk) is one attractive feature of devolution. However, partly because of DHBs' tight funding accountability to the Ministry of Health, the New Zealand public tends to consider the Minister of Health accountable for health services. DHBs in their current form appear to be relatively ineffective in muting the political risks of the Minister of Health. This supports a more general observation – the decision rights and responsibilities devolved need to be both real and mutually compatible.

DHBs have responsibilities for public health, primary healthcare (eg, GPs), tertiary healthcare (eg, hospitals) and aged care. Service integration offers significant opportunities to achieve economies of scope across these responsibilities. Chapter 10 explores these opportunities, together with the possibility of widening the responsibilities of DHBs to include other social services.

Tomorrow's Schools

New Zealand's school system is characterised by a high level of devolution:

> Prior to 1989, primary schools were governed at a district level by regional education boards, supported by central regulation and funding. This model came under sustained critique in the mid-1980s. The system was seen by many as inflexible, overly bureaucratic and lacking responsiveness to the needs of students and local communities.

> The *Tomorrow's Schools* (1988) reforms dismantled regional education boards. Policy decisions were centralised and responsibility for the administration and management of individual schools was placed with Boards of Trustees. Self-managing schools, governed primarily by parents and competing for

> students, were expected to foster better teaching and learning, and a higher performing education system. (MoE, 2010, p. 10)

The architecture of Tomorrow's Schools combines centralisation with devolution. Curriculum, qualification standards, infrastructure provision and industrial relations are centralised. The Education Review Office (ERO) reviews schools, including their statutory obligations and the quality of education they provide.

A school's board of trustees appoints the principal who, in turn, appoints the school's staff.

Contestability is inherent in some of these arrangements, and constrained (by design) in others. A school board is subject to contestability from two sources. First, it is elected by parents for a fixed period and can be replaced at the next election. Second, poor performance, as judged by the ERO, can lead the Secretary or Minister for Education to intervene (under part 7A of the Education Act 1989). Interventions range from requiring a board to provide specified information to replacing an elected board of trustees with a commissioner. Competition for students is limited by a system of school zoning.[30]

Local government

Significant responsibilities for social services are devolved to local and state governments in many other countries. Local government in New Zealand is much less involved in social services (such as education) than its counterparts in other jurisdictions, such as the United Kingdom.

That said, local government makes an important contribution to social services. Local Government New Zealand (LGNZ) submitted several examples:

- Social sector trials which are partnerships of government agencies, third sector agencies, local government and Iwi providers;
- The Mayors' Taskforce for Jobs which adapts funding from national programmes to address local circumstances;
- The provision of supported facilities that provide a base for local social service agencies, thus enhancing community access to services, reducing agency costs and improving inter-agency information flows; and
- The establishment of the Wellington Strategic Coordination Group which brings together the leaders of key central-government agencies, reduces duplication and agrees priorities. (LGNZ, sub. 124, p. 2)

Territorial authorities are often involved in social housing (LGNZ, sub. 124; Wellington City Council, sub. 43). Wellington and Christchurch City Councils are the second and third largest social landlords in New Zealand.

Contributions to social services are determined by councils in line with their priorities. Box 5.3 illustrates different stances taken by councils.

Box 5.3 **Examples of different stances taken by councils**

Wellington City Council

> Council projects support partnerships and programmes within communities and neighbourhoods as a way of building local community resilience, and working with our partners to ensure the city's social infrastructure supports vulnerable people in the city.... (sub. 43, p. 1)
>
> The Council shows its commitment to its role in the social sector through a projected spend of over $750M on social and recreational services over the next ten years, plus a further $320M on cultural activities. The 2014/15 Annual Plan includes expenditure of just under $40M to deliver the Council's community support functions. (sub. DR137, p. 1)
>
> The Council does not duplicate central government efforts, [but] fills where a larger scheme leaves gaps by understanding the nuances of its community and population, and should be recognised as

[30] Though, to some extent, such competition is transferred to the real estate market.

> a valued partner in social services delivery. As the priorities of central government sharpen and narrow, the gaps local government needs to fill are expanding. (sub. DR137, p. 3)

Waimakariri District Council

> The Council does not see itself as having a direct role in seeking contracts to provide social services. It does, however, consider that it can play a constructive role in [supporting] the locally based service providers by contributing information about the community, including the analysis of data from Censuses and administrative data relevant to service provision in the District. This information is used to support funding applications for grants from funders and/or to help to identify gaps in current services in the area. (sub. 75, p. 6)

Auckland Council

> Local government should be central government's natural partner in investing in the most cost effective intervention in social services. For example parks, sport and recreation facilities are vital to supporting a more healthy population. Local government also plays a key role in supporting community organisations and local business in delivering social services for government and ensuring the viability of the supply chain for social service provision. For example community facilities (premises and events) are often provided by local government agencies at cost to community organisations. (sub. DR177, p. 4)

Some submitters argued for an increased role for local government in social services (eg, Noelene Buckland, sub. 61; Auckland District Council of Social Services, sub. DR141). However, devolving responsibility for social services to territorial authorities would require a significant re-shaping of the role of local authorities.

In many ways local government appears to be an obvious level of devolution.[31] Population boundaries are well defined, and democratic mechanisms are well established. Relevant expertise is likely thin, but could be built over time. Yet there are reasons to be wary.

- Local government is not a servant of central government, but another level of democratic representation. The incentive structure for local government is very similar to that for central government, so problems of government opportunism, third-party opportunism and political risk aversion are likely to remain.[32]
- Local government has significant responsibilities for social services in the United Kingdom, as have state governments in Australia. Yet social services systems in both countries are reported to suffer from much the same systemic problems as in New Zealand (eg, Haldenby, Harries & Olliff-Cooper, 2014; Harper et al., 2015).[33]
- Local government lacks the revenue-raising capability to pay for social services. If central government remains the funder of social services, then it will likely feel obliged to retain significant control over how those funds are spent. This is the situation, for example, between the federal and state governments in Australia, where political blame shifting is widespread and complex bureaucratic arrangements are often found. Devolution under these circumstances might pose "an ongoing risk to local government autonomy" (Peter McKinlay, sub. DR154, p. 2).
- The transfer of responsibilities to local government would require a significant investment in capability to be successful. Variation in capacity would add to inconsistencies nationally.

[31] This discussion is probably more relevant to regional council or unitary authorities than to district councils. Many New Zealand district councils are likely too small to take on social services responsibilities.

[32] See Appendix F for further discussion of these problems.

[33] Haldenby, Harries and Olliff-Cooper (2014) reported, for example, that in the United Kingdom "end users have little or no choice or power", "providers are selected through bureaucratic processes", "incentives are often too weak to drive appropriate behaviour, or are contradictory" and "providers are often exposed to unreasonable, crippling, or unrealistic commercial and political risk" (p. 21). Harper et al. (2015) reported, for example, that traditionally in Australia "governments have decided which human services would be delivered, in what quantities and to whom. One result of this practice was that individual needs were rarely reflected in the standard service offering" (p. 230) and "tendering decisions in [Australia and] the UK have historically focused on cost and value for money, which may come at the expense of care and relationships" (p. 240).

- Citizens expect national consistency for many social services, particularly in health and education. While local adaptation has advantages, tension exists between it and national consistency.

Different regions face different cost levels and have different abilities to raise funds from existing ratepayers. A national re-distribution mechanism would no doubt be necessary to support the increased responsibilities of local government. The design of, and outcomes from, such a mechanism are likely to be politically contentious.

Although LGNZ (sub. 124, p. 3) has indicated limited interest in discussing the potential for locally pooled budgets in some areas (such as skill training), the Commission finds little reason to support the large-scale devolution of responsibilities for social services to local government.

F5.2 The case for large-scale devolution of responsibilities for social services to local government does not appear strong in New Zealand. Devolving responsibilities to local government would not resolve some significant problems of the current social services system.

Submitters, including councils, supported this finding.[34]

That said, the Government should be open to councils choosing to take an expanded role in providing or coordinating social services for the populations they serve. Wellington City Council submitted that this role was best described as "one of relationships, facilitation, and community advocacy" (sub. DR137, p. 3). The Commission does not disagree with this description, but councils should be free to choose the basis of their own involvement.

National (service-agency based) devolution

Functions can be devolved within government. This kind of devolution involves a structural separation between ministries and semi-autonomous entities. Devolution can improve on top-down control where delegated decision makers have better information and incentives to balance current and future interests. There are some good examples of such devolution, including the five that follow.

Pharmac

One example in social services is Pharmac. The Government, through its normal budget process, allocates an overall budget each year to Pharmac. In turn, Pharmac makes decisions about which pharmaceuticals and medical equipment the budget should be used to fund. It makes these decisions in line with clear cost-benefit criteria designed to maximise the impact on New Zealand health outcomes within the assigned budget. While Pharmac is responsible to the Minister for Health, the Minister cannot override its drug purchase decisions. Such overrides require an Act of Parliament. The override has only been used once.

Housing New Zealand Corporation

Housing New Zealand Corporation (HNZC) is a statutory corporation established by the Housing Corporation Act 1974. It is a Crown Agency under the Crown Entities Act 2004. HNZC is governed by a board, which in turn is responsible to the Ministers of Housing and Finance. The Ministers communicate their policy requirements through a Letter of Expectations.

Ministers have used Letters of Expectations in the past to direct HNZC to build more state houses – without necessarily balancing competing operational demands such as maintenance. The Social Services Select Committee reported that

> [s]ome of us are concerned that HNZC has focussed on acquiring new houses, rather than maintaining its existing stock. HNZC has estimated that it will cost approximately $2 billion to address deferred maintenance of State houses around the country over the next 10, possibly 15, years…

[34] For example, Wellington City Council (sub. DR137), Auckland Council (sub. DR177), Waimakariri District Council (sub. DR240) and Peter McKinlay (sub. DR154).

> We were interested to learn that the depreciation fund for housing stock was not specifically allocated to either maintenance or replacement, and that the Government was responsible for deciding on which of the two to spend more of the funds. HNZC noted that it was difficult to balance competing pressures on this matter, and that it was directed in this area by the priorities of the Government of the day. (Social Services Committee, 2008, p. 2)

In 2010, the Housing Shareholders Advisory Group noted that HNZC was under pressure, which was apparent in the "burgeoning maintenance liability, partly due to the diversion of funds to deliver state house numbers, the pre-eminent key performance indicator" (HSAG, 2010, p. 33).

HNZC, like DHBs, is an example of a devolved structure based around existing infrastructure (in this case, state houses). Its structure as a Crown entity has given it a measure of independence in operational decision making. HNZC has had independence in its operational decisions, but policy expectations may have reduced its effectiveness in managing the state housing stock (HSAG, 2010, p. 39).

The Reserve Bank, Commerce Commission and NZ Super Fund

The Reserve Bank of New Zealand has the job, devolved to it by Parliament, of conducting monetary policy (and prudential regulation of the financial sector). The Commerce Commission has been given a comparable role in the conduct of competition policy and the regulation of industries with monopoly or network characteristics. The case for assigning these entities independence in carrying out these roles is widely recognised. It largely frees up decisions in these spheres – vital for the medium and long-run performance of the New Zealand economy – from the unhelpful influence of short-term political pressures.

A further example is the Guardians of New Zealand Superannuation (Box 5.4).

Box 5.4 **Guardians of New Zealand Superannuation – a "double arm's length" Crown entity**

The New Zealand Superannuation and Retirement Income Act 2001 established a fund to support the Government saving now to help pay for the future cost of providing universal superannuation.

The Act also created the *Guardians of New Zealand Superannuation*, an autonomous Crown entity charged with managing the fund:

> Sound governance is critical to maintaining stakeholder and public confidence in the Guardians and the Fund. As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Government, we have operational independence regarding investment decisions and are, instead, overseen by an independent Board.

Ministers can give the entity directions, but directions are constrained and must be transparent:

> The Minister of Finance may give directions to the Guardians regarding the Government's expectations of Fund performance – as long as directions are consistent with the duty to invest the Fund on a prudent, commercial basis. The Guardians must have regard to any direction from the Minister and all directions must be tabled in Parliament.

Source: NZ Super Fund, n.d.

Devolution to semi-autonomous government entities can improve on top-down control

Pharmac and HNZC are both Crown Agents as defined in of the Crown Entities Act (s 7). Crown Agents have the least distance from Ministers of any kind of Crown entity.[35] The legal form is only one factor that influences the distance in practice. The specification of decision-making independence in the entity's enabling legislation is perhaps more influential.

The Commission's report *Regulatory institutions and practices* noted that

[35] In comparison, Autonomous Crown Entities need only have regard to government policy when directed by the responsible Minister, and Independent Crown Entities are generally independent of government policy.

> [l]egal independence does not automatically lead to independence in practice. In particular, an agency's reputation and capability will influence the degree of independence it is accorded, regardless of legal designation. A regulator that is formally within ministerial control will, in practice, be able to act independently if it is held in high regard. A regulator that is formally independent but held in poor esteem by government or regulated firms will find their independence under threat, even with legal protections. (NZPC, 2014b, p. 223)

The Commission also found that "the choice of institutional form will be important as much in terms of what it signals around expected levels of agency independence, as for the legal protections associated with particular agency forms" (p. 249).

F5.3 Devolution of responsibility for social services to semi-autonomous government entities can lead to better outcomes than direct ministerial control. Such entities typically have better information and incentives to make and implement decisions that maximise social returns.

Devolution to NFP providers

Some submitters thought that NFP providers were obvious candidates for devolution.

> [C]learly there are NGO providers who are very capable of managing national services on behalf of both Government and the Community. In the case of the Royal New Zealand Foundation of the Blind and of Iwi Māori, it is from these groups that innovation has emerged, developing improved services and radical new approaches over time and having to spend years pushing Government to update its systems and legislation in response. (Hui E!, sub. DR213, p. 5)
>
> NFP organisations which are embedded within their communities have the best understanding of the needs and gaps in services within those communities.
>
> Our recommendation: Mechanisms already exist that could be further developed for devolved service commissioning. Probably the most effective of these communities of interest that are already in the social services funding/purchasing segment, are the regional Community Trusts such as the Community Trust of Canterbury, Trust Waikato etc. They have efficient distribution mechanisms, sound knowledge of local issues and needs, and are well regarded in their communities.
>
> Community response fora were established by the Minister of Social Development with the aspiration that they could become part of devolved funding decisions but they have not established any real community engagement in a consistent way across the country.
>
> Some parts of the country have agency networks such as right Services right Time in Christchurch, or Strengthening Families local Governance groups that act as fund holders and distribute case-by-case funding.
>
> Nationally, we would be responsive to becoming a 'commissioning agency' to support our seven regional organisations to contract for realistic client outcomes. (Presbyterian Support, sub. DR185, p. 5-6)

Peter McKinlay was less enthusiastic:

> [M]uch more commitment and investment will be required before it is reasonable to assume New Zealand's community sector will have the resources and capability required to step up to a commissioning and/or delivery role to the level required if central government were to embrace a strategy of devolution on any significant scale. (sub. DR154, p. 5)

The Commission believes that there are providers that are currently capable of a more significant role within a devolved system, and others could grow into such roles.

Devolution to communities of interest

A further basis for devolution is communities of interest – people with a shared interest and identity that can be wider than living in the same place. The Whānau Ora Commissioning Agencies (Appendix C) are an example of such devolution. Three agencies cover Pasifika, North Island Māori and South Island Māori. Chapter 13 contains a fuller discussion of how devolution might empower Māori communities, and examines several ways that Māori groups have chosen to become involved in the commissioning of social services.

The disability community (Disabled Persons Assembly, sub. DR243) and Deaf people are examples of a community of interest:

> The term 'Deaf' is used to denote those people who identify themselves as part of a linguistic and cultural community and who are likely to use New Zealand Sign Language as their primary communication method. (Deaf Aotearoa, sub. 69, p. 1)

As a general principle, devolution to a community of interest should be initiated by the aspirations of that community, rather than by government.

Co-governance shares responsibility and decision-making power

Co-governance involves agreements or structures that share responsibility and decision-making power. Co-governance in New Zealand is used more in the environment sector than in social services. Formal co-governance arrangements in New Zealand occur more often with Māori, and may or may not derive from the Treaty of Waitangi settlement process.

For example, the Te Hiku Social Development and Wellbeing Accord (Chapter 3) is a co-governance arrangement, where the Crown and iwi in the Far North share responsibility for governance of local social services. Likewise, the Partnership Group with governance responsibilities for Whānau Ora consists of both ministers and iwi leaders. Chapter 13 includes examples of other iwi and Māori groups engaged in the governance of social services.

Social insurance assigns liability for future costs to an insurer

Social insurance can be defined as an insurance scheme organised by the state with compulsory membership.[36] The Accident Compensation Corporation (ACC) is an example of a social insurer (Box 9.6 in Chapter 9).

Social insurance is a variant of devolution. Along with decision-making power, social insurance assigns liability for future costs to an insurer.

The incentives facing social insurers

Ideally, devolved organisations should face strong incentives to intervene early to reduce future costs. Devolving to social insurers could fulfil this ideal. Social insurers face incentives to reduce the total cost of current and future claims. This can lead to three kinds of behaviour:

- investing in preventive actions (such as ACC's falls-prevention programmes) to reduce the number of future claims;
- spending resources early on a claim, to reduce the long-term costs of that claim; and
- setting a "higher bar" for claims approval.

Social insurance schemes need to be carefully designed to enhance incentives for the first two behaviours. Competition among multiple insurers can reduce the incentive for the third behaviour. Alternatively, criteria can be set in legislation.

There are some other significant challenges in the design of social insurance schemes, including how to determine premiums and rules for moving between insurers. Chapter 9 sets out the Commission's analysis of social insurance.

Choosing an architecture

System architecture needs to be matched to the outcomes sought. In some cases those outcomes will be framed in terms of populations, and in other cases in terms of services. Generally speaking, the Commission finds it most useful to work from populations, to desired outcomes for those populations, then to the

[36] "Social insurance" can mean different things in different contexts and in different countries. The definition here is one that is appropriate to New Zealand examples and the discussion in this report. Chapter 9 contains further discussion and examples.

services required to achieve those outcomes, to the service model (Chapter 6) and finally to the system architecture best suited for this purpose.

The crucial consideration in choosing between architectures is under which arrangement do decision makers have the authority, information, capability and incentives to make and implement decisions that maximise social returns.

Devolution is an important enabler for service tailoring

Information technology (IT) is offering improved ways to move information and, to a lesser extent, capability, within a system. This has affected, and will continue to affect, the best choice of architecture. Yet some types of information are difficult if not impossible to move; a good architecture needs to recognise that constraint. The information required for the resolution of the situation in Box 5.5, for example, would not have been available to top-down decision makers. And even if it had, other constraints would limit their ability to deliver a tailored response to the whānau's circumstances.

Box 5.5 **Grandmother's story**

A grandmother and her three mokopuna (grandchildren) came to the attention of a Whānau Ora provider's in-home mentoring service. CYF had previously taken a fourth mokopuna into care. The grandmother's two daughters – the mothers of the mokopuna – had chronic methamphetamine issues and were not providing adequate care for their children. So the grandmother had become the primary caregiver.

Grandmother's house had broken windows as a result of gang members attempting to recover money to pay for her daughters' drug habits. The house was a mess and clutter posed a health and safety risk to the whānau. The grandmother had an extensive mental health history, high medication intake and diabetes, leaving her depressed and lacking in energy. She was doing her best under the circumstances but did not know how to go about changing her situation. Due to the complex needs of the whānau, several agencies had become involved and were considering a notification to CYF to have the remaining children removed from the home.

The provider's kaitorotoro (navigator) proposed an innovative "DIY-home makeover". She mobilised support for the whānau. Volunteers including kaimahi (staff) and others from the community cleaned the home from top to bottom. Outside, trees were pruned, gardens weeded, lawns mowed and a large skip full of rubbish was dumped.

This low-cost initiative was a "kick start" for the whānau. The makeover encouraged other small changes, such as healthier kai, increased exercise and more positive lifestyle choices. The daughters became more open to seeking help with their addictions and started being more supportive of their mother caring for their children. The grandmother developed a plan for her depression, diabetes and medications with help from kaimahi. These gradual changes were described by the whānau as life changing; the grandmother said "I feel like I have a new lease on life".

Source: Inquiry engagement meeting, June 2015.

The four-quadrant diagram in Chapter 2 (Figure 2.8) distinguishes four categories of people who might be best served by different system responses. It is in quadrant D that the current system particularly under-performs. As expressed by Waimakariri District Council:

> The relative inability of the social service sector to address the situations where families or individuals face multiple and inter-dependent problems is a serious indictment, as these can be seen as probably one of the main sources of inter-generational dependency.
>
> The report highlights both the inability of the various social services to adequately respond because of the vertical integration of the institutions and reporting responsibilities of those involved. (sub. DR240, p. 2)

Top-down control is particularly inappropriate in this quadrant. The families and individuals need a tailored response, in many cases drawing on services from across traditional social services silos. More use should be made of the abilities, knowledge and capabilities of the many providers and community organisations that know and work with such people. The design challenge is to achieve an arrangement where all relevant parties are both involved and accountable for their contribution to better outcomes. Chapter 10 explores two models specifically aimed at improving the lives of those in quadrant D.

Trade-offs will determine the optimal level of devolution

Franklin Family Support Services (sub. DR228) was concerned that regional provision is still too remote from local initiatives, which it sees as having many strengths. On the other hand, The Blind Foundation (sub. DR209) stated that regional provision can lead to costly and unnecessarily fragmented provision. There is no single answer to these concerns. While, in theory, it might be possible to separate out all relevant decision rights and responsibilities and assign them to the "best" level of the system, in practice fragmented decision making can be costly. The best arrangements acknowledge the inherent trade-offs, and minimise overall costs.

Top-down approaches can assist with standardisation, costs and quality control

The case for devolution is not so overwhelming for arrangements intended for families and individuals in the other three quadrants. Plunket, for example, expressed concern about costs and standards:

> The case for devolved services, particularly in a country with New Zealand's population and geography, is unlikely to be strong. Devolution also has significant implications for social service sufficiency and standards, and ultimately for taxation. (sub. DR169, p. 2)

However, local service tailoring can still be important for "universal" services such as employment programmes:

> In terms of employment programs it is clear that universal managed programmes that have been adapted to meet local conditions bring about better targeted services in these local areas. We would support the establishment of a semi-autonomous agency to manage the delivery of employment programmes. (Max Solutions, sub. DR200, p. 7)

Devolution may still be the best architectural choice, but there is need for a case-by-case analysis, and to carefully design the form of devolution to match the circumstances.

A preference for devolution

In the Commission's judgement, the social services system would be improved by greater use of devolution. These architectures often feature better incentives for encouraging innovation and improving social services outcomes.

R5.1 To improve innovation and outcomes from social services the Government should make greater use of devolution in the social services system.

The State Services Commission and Treasury pointed out that there is already a significant amount of devolution in the social services system:

> There is already a significant amount of devolution and delegation in the social sector. It would be useful to understand where the Commission views this isn't working or where it could be expanded. (DR226, p. 6)

The question to be asked of any devolved structure is whether decision-making control over each relevant type of decision sits at the appropriate place in that structure. This can only be answered on a case-by-case basis. The inquiry's observation is that decision making in those parts of the system close to clients is often very constrained (Chapter 4). In many cases this is despite apparently devolved structures. This emphasises the important of close attention to design.

5.4 The enabling environment

Government cannot devolve some important roles. Government is the major funder of social services, and only Parliament, led by the Government of the day, can legislate and assign regulatory powers. Government is responsible for creating the "enabling environment" for the social services system.

Three enablers are particularly relevant to improvements in social services: funding arrangements, data infrastructure and regulation.

Funding arrangements

As Chapter 4 makes clear, accountability, responsibility, political risk and incentives follow the money in the social services system. Funding cannot be separated from governance issues. Control over funds, as opposed to direct regulation, for social services is probably the most important lever available to government.

Tagged, bulk and pooled funding and dedicated budgets

Normal budgeting processes involve splitting a larger allocation into smaller ones, assigning a purpose to each allocation, and then ensuring that that allocation is used only for its specified purpose. Such processes guard against excessive expenditure and ensure accountability for commitments expressed in terms of dollars spent.

Bulk funding is a single allocation for a broad purpose. The funder has little control, but the recipient has significant flexibility.

Tagged funding is many allocations each with a specified, narrow purpose. The funder has a high level of control, but the recipient has little flexibility. Tagged funding that passes through intermediate organisations often accumulates additional constraints ("tags"), including reporting requirements.

Pooled funding is when allocations from multiple funders or budgets are combined to form a "pool". A pooled budget requires a purpose that is well-defined and distinct, not simply the aggregate of the purposes of individual funders. If these conditions are met, pooled funding effectively becomes a *dedicated budget* to carry out a defined purpose.

Pooled funding can overcome a problem where no individual funder will fund an action that would benefit all, because the cost-benefit equation for each funder requires that its avoided costs outweigh its contribution.

Dedicated budgets are an essential feature of effective arrangements for clients with multiple, complex problems (Chapter 10). Local decision rights over use of resources are essential to support flexible client-centred service design and implementation. Client control over such a budget can work well for capable clients (ie, those in quadrant C). For clients in quadrant D, decision rights over the use of the budget should be devolved to a navigation service close to the clients.

Budget appropriations

The budget appropriation system is determined by the Public Finance Act 1989 (PFA). This is the central piece of legislation in New Zealand for determining financial accountability. Another key piece of legislation is the State Sector Act 1988, which devolves responsibility to departmental chief executives for running their departments and for managing the resources allocated to those departments (Appendix G).

These Acts (together with the Crown Entities Act) set up strong vertical budgeting and accountability arrangements. Those arrangements have traditionally made it hard for departmental chief executives to move funds within departments and between departments.

This system has strengths and weaknesses. It is strong on accountability and delivering services specified in terms of outputs yet weaker on delivering outcomes. This weakness is due both to fragmentation of expenditure and to a lack of focus on, and information about, actual clients. This weakness has become

more apparent over time, especially as hard-to-solve issues have persisted, despite efforts to tackle them.[37] Narrowly specified budget appropriations are in tension with efficient cross-service allocation and service integration.

The PFA and the State Sector Act were both amended in 2013 to provide more flexibility in the budget system and a greater focus on achieving better outcomes, while maintaining accountability and transparency (Box 5.6).

Box 5.6 **2013 changes to the Public Finance Act and the State Sector Act**

The legislative changes to the PFA included:

- the introduction of multi-category appropriations (MCAs);
- a requirement to report on what is intended to be achieved and what has been achieved with expenditure from appropriations; and
- a focus on results and outcomes.

The focus on results and outcomes was to help achieve the 10 Better Public Services targets adopted in 2012 (Chapter 2).

The State Sector Act was amended to enable the responsibilities of public service chief executives to extend beyond their agency's boundaries. This shared accountability was envisaged as a mechanism to create greater impact on issues that required a more coordinated approach. In practice this has involved setting up cross-agency boards, such as the Social Sector Board (discussed in section 5.5).

The MCA was introduced to support the Better Public Services results and to address budgetary fragmentation. An MCA is a mechanism to shift funding between different classes of expenditure for the purposes of "contributing to a single, overarching purpose".[38] MCAs allow appropriation ministers or those with delegated authority to move money between categories of expenditure. MCAs may have conditions, and any large movements need ministerial sign off.

Once an MCA is established, those with delegated authority can approve shifts in funding between normally rigid expenditure categories (eg, "departmental" and "non-departmental"). This allows agencies to re-allocate funding in response to data and information about client need and service performance.

Not all submitters were convinced that the changes to the budget appropriation system would change purchasing practice:

> The amendments to the Public Finance Act are understood but at the moment are experienced as Wellington-centric with government officials regularly meeting with [each] other and collaborating. This is not being felt in the regions however where control and resource is held tightly by the relevant agencies. (Wise Group, sub. 41, p. 35)

> Siloed funding streams continue to be a hindrance to working in integrated and family centred ways where providers are only able to deliver what is specified in their contract despite being well placed to address a range of needs for a family. (Alliance Health Plus Trust, sub. 119, p. 3)

Budget tools are very flexible in theory. For example, any department can use any other agency's departmental appropriation with the agency or appropriation Minister's consent (SSC & Treasury, sub. DR226). But there are barriers to using that flexibility:

> [A]ll functions/powers of a chief executive can be delegated to any person inside or outside the public service (subject to safeguards). The barriers to using these tools are often behavioural or about having

[37] For example, low educational achievement for Māori, Pacific Island and students from poorer homes (Education Counts, 2015).

[38] Public Finance Act 1989, s 7B(b).

> the right systems to manage the flexibility. (SSC & Treasury, sub. DR226, p. 5)

The Commission regards MCAs as a useful addition to budget structures, but they have their limits:

> Treasury and SSC agree that multi-category appropriations are useful but not sufficient to provide flexibility at the provider/client interface. (SSC & Treasury, sub. DR226, p. 5)

MCAs do not solve the problem of devolved control over pooled funding. A solution to that problem is necessary to tailor services for clients with multiple, complex problems.

F5.4 Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. Yet these mechanisms are not sufficient to provide flexibility at the interface between providers and clients. Such flexibility is required to tailor services for clients with multiple, complex problems.

Improved measurement of service cost and impact on client outcomes may support further delegation of authority to shift funding between budget appropriations. Improved measurement is necessary to support accountability for outcomes. The Government's investment approach is an initiative that seeks, and indeed requires, such measurement. Greater visibility of *what is* or *what is not* being achieved may lead to less focus on *how much* has been spent.

Funding issues in a top-down architecture

It is common for social services providers to have multiple sources of tagged funding (Chapter 2). These arrangements have high administration costs and are very inflexible.

Pooled funding is challenging

Budget pooling is attractive but seems particularly elusive. Rather than contribute to the budget of an initiative under the control of another agency, agencies typically create additional initiatives under their own control (Chapter 10). This may be because pooled budgets act to magnify rather than reduce political risk, and because ministers and agencies are risk-averse.[39] The political incentive to create "branded" initiatives also acts against budget pooling (Appendix F).

The governance of the pooled budget needs independent decision rights over it, without the individual funders having veto powers. Further, each funder has to be willing to treat its contribution as bulk funding. This is difficult for funders who are themselves held accountable for the achievement of their own, specified, purpose.

Funding issues in a devolved architecture

Devolution is an opportunity to unify rather than further fragment service funding:

> While decentralisation to bring decision-making closer to the frontline is positive, devolving funding to another entity must not create yet another funder for providers to report to. (Health and Disability Network, sub. DR158, p. 2)

> Overall, we believe that there is merit in considering this option (i.e. decentralising decisions and funding). However, to be successful, making decisions and allocating funding [need] to occur as close as possible to services. Otherwise, there is a risk of creating another layer of local bureaucracy where decisions are made by people who don't really understand what it takes to provide, for example, employment services for disabled people. (Workbridge, sub. DR204, p. 4)

Allocating funding to devolved entities

Splitting responsibility for a problem across multiple subsidiary entities raises the difficult issue of how to split available funding across those entities.

[39] The political system holds each funder jointly and separately responsible for the probity and outcomes from the pooled budget. So each funder carries more than their proportionate share of political risk. Further, pooled budgets lower each funder's ability to manage that risk through top-down control.

If there is a direct match between the entities and the population served by each entity, then allocation is typically made using a population-based formula. Formula-based funding has the advantage of transparency. However, decisions on details of the formula can be controversial. Further, it is difficult to reward good performance under such funding arrangements. A formula that prioritises population need, for example, will reward under-performing entities with greater funding.

The allocation issue is much more difficult when there is little clarity over which people are the responsibility of each entity. This problem arises, for example, with the Whānau Ora commissioning agencies (Chapter 10).

Unclear population responsibilities, when combined with rewards for good service performance, encourage entities to actively select the clients most amenable to the services they offer, leaving the more difficult cases to fall between the cracks.

There are no simple answers to this allocation issue. However, funding based on a clearly defined population is preferable. Chapter 10 explores this further.

Improved data networks

Data networks that permit better sharing of relevant information across all social services organisations would support better service integration, improved targeting, and more efficient service delivery (Chapter 8). Improved data networking also permits better and easier monitoring and evaluation of service performance.

Data networks need to be well designed to encourage trust between system participants and to achieve an appropriate balance between efficiency, data accessibility, data quality and privacy.

Regulation affects social services in intended and unintended ways

Regulation can affect social services provision in intended and unintended ways.

Some submitters were concerned that government regulation is making it increasingly difficult and costly to provide social services using volunteers. Submitters identified the importance of volunteers for social services and for communities more generally:

> Volunteering has significant benefits to volunteers also – research consistently shows that giving is good for mental health – volunteering has always been an essential part of New Zealand's history – there is a risk in the increasing professionalisation of the community and voluntary sector and increasing compliance expectations that the goodwill associated with volunteering may be lost as volunteers get frustrated with increased compliance expectations. (Age Concern New Zealand, sub. 100, p. 3)

Government regulation is having consequences for voluntary provision. Several submitters raised concerns about recent and proposed changes in legislation:[40]

> Recent changes to legislation such as the Vulnerable Children's Act, and the need for Police vetting along with the changes in Health and Safety and the Worksafe environment may influence provider choices in utilising volunteers due to the increased risk that individuals and organisations are liable for. (Community Care Trust, sub. 96, p. 10)

Some submitters expressed concerns about the proposed health and safety reform on their organisations for governance and operations:

> [W]e believe that the Health and Safety Reform bill potentially creates too onerous a burden for completely volunteer-run organisations hiring casual workers. VNZ still believes there is likely to be an [increased] bureaucratic burden on volunteer groups, with a corresponding negative effect. (Volunteering New Zealand, sub. DR161, p. 4)
>
> The difficulty many non profits face is how to attract the right calibre of trustee for their organisation – people with the skills, knowledge and expertise that can drive the changes. And even if the trustees are skilled, competent individuals, the time that they can give is often limited. Adding to the difficulty in

[40] These views were not universal among submitters. For example, WAVES Trust & Community Waitakere expressed concern that volunteers were exempted from the safety checking of children's workers required by the Vulnerable Children's Act 2014 (sub. DR195).

> attracting good trustees is the personal liability that trustees can face and this will become even more difficult once the new Health and Safety Act comes into force… (The Raglan House, sub. 24, p. 5)[41]

These regulatory effects (proposed or actual) on voluntary work are likely unintended, yet they can create real barriers. Volunteers may be deterred by what they see as unnecessary security, training and supervision requirements. And the costs of providing that security, training and supervision discourage NFPs from using volunteers.

NFPs are particularly reliant on volunteers for their governance:

> There is the issue of volunteer Governance Boards, who are expected to understand complicated contracting and financial management processes, without the required training or support. Highly skilled governance Board members are in demand and can be hard to source as many are already over-committed. (Palmerston North Community Services Council, sub. 125, p. 6)

Increased personal liability on those in governance positions may reduce the number and potentially the quality of such volunteers. Further, personal liability is likely to make NFPs more risk averse and so even more reluctant to use volunteers in service delivery roles.

The Select Committee considering the Health and Safety Reform Bill reported back to Parliament in July 2015. The Committee's recommended changes would mean that coverage of volunteers remains as it is under the current law, which distinguishes between casual volunteers and volunteer workers (Transport and Industrial Relations Committee, 2015). The Committee's proposals, together with further changes proposed by the Government, would further clarify the duties of board members (MBIE, 2015a). These proposals should reduce the situations under which volunteers in governance roles might face personal liability (when compared to the original bill).

This example points to a more general point: the Government should take account of the role and value of volunteers as an important part of social services when drafting new legislation. It should seek to understand the consequences on volunteering of new legislation, and ensure that its intended benefits are not outweighed by unintended costs.

R5.2 The Government should take account of the role and value of volunteers as an important part of social services when drafting new legislation. It should seek to understand the consequences for volunteering of new legislation, and ensure that intended benefits are not outweighed by unintended costs.

Inquiry participants were also concerned about the cost implications of legislative change for NFP providers. For example, South Waikato Social Services Group was concerned about charges for the police vetting of workers as required by the Vulnerable Children's Act (sub. DR185). Regulatory changes that place on providers significant costs unanticipated at the time contracts were signed, are one example of government opportunism (Appendix F). Government needs to be aware of the consequences of its regulatory decisions.

5.5 System stewardship

System architecture and the enabling environment require active management for social services to be effective. There is currently little conscious oversight of the overall social services system:

> Each part of the system currently looks after its own best interests. What is missing is an appropriate mechanism that takes responsibility [to] oversee the system as a whole. By this we do not mean tight or cumbersome regulation. (Barnardos, sub. 12, p. 11)

The responsibility to oversee the overall system is encompassed by the idea of *system stewardship*.[42] The role of system steward falls to the Government. This is because of its unique role as the major funder of social services, and its statutory and regulatory powers unavailable to other participants.

[41] See also New Zealand Red Cross (sub. 94), Presbyterian Support New Zealand (sub. 76) and Community Networks Aotearoa (sub. 31).

[42] The related topic of *service stewardship* is covered in Chapter 6.

The responsibilities of system stewardship include:

- conscious oversight of the system as a whole;
- clearly defining desired outcomes;
- monitoring overall system performance;
- prompting change when the system under-performs;
- identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change;
- setting standards and regulations;
- ensuring that data is collected, shared and used in ways that enhance system performance;
- improving capability;
- promoting an effective learning system; and
- active management of the system architecture and enabling environment.

These responsibilities are often unclear in the social services system. However, a great deal of effort goes into cross-agency coordination.

Cross-agency coordination

The social services system has a significant amount of cross-agency coordination and governance infrastructure in place (Table 5.2).

Table 5.2 Cross-agency coordination groups

Area/programme	Officials	Chief Executives	Ministers
Cross-agency work in the social sector	Social Sector Deputy Chief Executives (SSDCEs)	Social Sector Board (SSB)[3]	Cabinet Social Policy Committee
Social Sector Priorities		SSB	Social Sector Priorities Ministers
Better Public Services (Results 1–4)	SSDCEs	SSB	Lead Ministers
Children's Action Plan	National Children's Directorate + SSDCEs	Vulnerable Children's Board (VCB)	Ministerial Overview Group
Social Sector Trials	Director Social Sector Trials + SSDCEs	VCB	Ministerial Overview Group
Child Sex Offender Register		VCB	Ministerial Overview Group
Prime Minister's Youth Mental Health Project	Cross-agency Steering Group	SSB	Cabinet Social Policy Committee
Enabling Good Lives	Joint Agency Group	SSB	Ministerial Committee on Disability Issues
Cross government Family Violence and Sexual Violence Work Programme	FVSV Steering Group	[SSB kept informed]	Ministerial Group on Family Violence and Sexual Violence
Cross-Justice Sector Work	Sector Group within the Ministry of Justice	Justice Sector Leadership Board (JSLB)	

Area/programme	Officials	Chief Executives	Ministers
Youth Crime Action Plan (YCAP)	Youth Justice Governance Group	[Information flows to both SSCEs and JSLB]	Minister of Justice (lead) and other Justice Sector Ministers
Whole-of-Government Action Plan for reducing the harms caused by NZ Adult Gangs and transnational crime	Joint Agency Steering Group	JSLB (but regular reporting to SSB)	Ministerial Oversight Group
Whānau Ora	Whānau Ora Strategic Advisors Group	[No Chief Executives group – Chief Executives informed by officials]	Whānau Ora Partnership Group
Disability	Senior Officials Group on Disability Issues	Chief Executives Group on Disability Issues	Ministerial Committee on Disability Issues
Drug Policy	Inter-Agency Committee on Drugs		reports to Minister of Health, with any needed decisions to Cabinet Social Policy Committee
Social services effectiveness, accreditation and contracting	Deputy Chief Executives (DCEs)-level Social Services Procurement Committee		reports to Ministers of Finance, Heath, Social Development, and Community and Voluntary Sector
Housing	DCEs group	[no Chief Executives group]	Ministers meetings (Finance, Social Housing)
Regional Economic Development	Regional Economic Development Deputy Secretaries Group		Regional Economic Development Ministers
Skilled and Safe Workplaces (stream of Business Growth Agenda)	Skilled and Safe Workplaces agencies		Skilled and Safe Workplaces Ministerial Group

Notes:

1. This list is not exhaustive.
2. See Appendix G for an expanded table, including the members of the chief executives and ministers groups.
3. The Social Sector Board comprises the chief executives from: the Ministries of Social Development; Education; Health; Business, Innovation and Employment; Justice; Pacific Island Affairs; Department of Corrections; New Zealand Police; Te Puni Kōkiri; Statistics New Zealand. The Secretary to the Treasury and Chief Executive of Housing New Zealand Corporation attend as required.

It is apparent that much of this infrastructure is programme-specific. Further, the costs of this infrastructure are likely large, but hidden.

Cabinet Social Policy Committee

The Social Policy Committee is one of 10 Cabinet committees that report to Cabinet. The Committee has 20 members, and is currently chaired by the Hon Paula Bennett. It covers 22 portfolios. Its terms of reference are to "consider social policy issues, including education, health, justice and law and order, welfare reform, child poverty and vulnerable children" (DPMC, n.d.).

Social Sector Board

The Social Sector Board is a chief executive group with responsibility for leading a cross-agency work programme. It is closely aligned with the Vulnerable Children's Board (Table 5.2). In April 2015 the Board had oversight of seven areas (pers. comm., 14 April 2015):

- Budget 2015 population approach;
- material deprivation and service response to families with complex needs;

- Social Sector Trials;
- Children's Action Plan;
- data analytics and integration;
- social sector integration, horizontal governance and contracting; and
- delivery of Better Public Services results.

Justice Sector

The Ministry of Justice, the New Zealand Police, the Department of Corrections, the Crown Law Office, the Serious Fraud Office, and Child, Youth and Family work as a "sector" to make society safer and to provide accessible justice services. The sector collaborates to reduce crime and enhance public safety; and to provide access to justice by delivering modern, effective and affordable services (Ministry of Justice, n.d.).

Assigning responsibilities for system stewardship

The current arrangements concentrate on cross-agency coordination. They change frequently and are somewhat opaque to the public. They fall short of what is required of a system steward.

Joint stewardship

Some submitters proposed joint stewardship arrangements:

> SSPA [Social Services Providers Aotearoa] proposes a truly collaborative mechanism of stewardship whereby Government and representatives of civil society (such as iwi leaders, umbrella bodies, church leaders, philanthropists, ethnic representatives etc.) come together to provide system stewardship. This process is likely to be more time-consuming and complex, but it is a fairer interpretation of the responsibilities and role of the sector, and will ensure ownership and sustainability. (SSPA, sub. DR235, p. 4)

> [W]e disagree that the government on its own is responsible for social services stewardship and overarching responsibilities. The role of government is important but stewardship should rest mainly with social service providers and the clients and communities they work with. (Auckland District Council of Social Services, sub. DR141, p. 11)

However, such arrangements could distract and delay government from fulfilling responsibilities that are firmly its own. The Commission considers that government should fulfil its system stewardship responsibilities. Discharging these responsibilities, as pointed out by Auckland Council, will often require effective partnership:

> System stewardship is the right goal however it is unlikely to actually be 'systemic' unless government can effectively partner with other sectors of New Zealand society. Devolution and commissioning are powerful ideas and Auckland Council recommends that the same logic of partnership and collaboration is applied to the next stages of designing, developing and implementing these positive reforms. (sub. DR177, p. 7)

Stewardship within government

Stewardship responsibilities can be spread over several bodies or agencies – for example, responsibility for monitoring performance could be assigned to a separate, independent, government agency.

Government should explicitly assign social services system stewardship responsibilities to organisations well-placed to discharge those responsibilities. This report recommends many such assignments, particularly in Chapter 14.

F5.5 System architecture and the enabling environment require active management for social services to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall short of what is required for good system stewardship.

R5.3

Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government should take responsibility for system stewardship including:

- conscious oversight of the system as a whole;
- clearly defining desired outcomes;
- monitoring overall system performance;
- prompting change when the system under-performs;
- identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change;
- setting standards and regulations;
- ensuring that data is collected, shared and used in ways that enhance system performance;
- improving capability;
- promoting an effective learning system; and
- active management of the system architecture and enabling environment.

5.6 An improved system architecture

Government has a unique role as the major funder of social services, and has statutory and regulatory powers unavailable to other participants. More than any other party, its decisions have the potential to affect the system's architecture, and therefore its effectiveness.

Government control in modern democracies is far from complete: "Power is radically dispersed and somehow always elusive" (Collins, 2015, p. 66). Top-down control means power over administration and funding, but this does not necessarily lead to power over social outcomes. Devolution – well designed and implemented – has much potential to improve social outcomes. Sometimes it is necessary to give up power in order to gain it.

This chapter presents many working examples of successful devolution. Still, devolution of social services will be a challenge for governments used to managing political risks through top-down control:

> Given the nature of the democratic system, Ministers will be ultimately accountable for government funded social services. We would welcome the Commission's views on how to align ultimate accountability with greater decentralisation in a system that takes more risks. (SSC & Treasury, sub. DR226, p. 11)

One answer to the concerns of the State Services Commission and the Treasury about accountability is that devolution is a tool that helps governments focus on the risk that matters most – the risk of poor social outcomes that might have been ameliorated through more effective social services.

6 Commissioning

Key points

- *Commissioning* is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. This report emphasises that a wider range of skills and capabilities are required for commissioning than suggested by the more commonly used term *procurement*, and that a wide range of options is available to commissioning organisations.
- Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices. They should consider objectives, needs, cost effectiveness, funding, pricing, risk management, quality, eligibility, performance measurement, information flows, provider-market sustainability and interactions with other services.
- A key commissioning task is choosing an appropriate *service model*. The model should be chosen to match policy objectives, and the characteristics of the service and its intended clients. Considering a wide range of models increases the likelihood of a better match, and better service outcomes as a consequence.
- This chapter explores seven conceptual service models, and their strengths and weaknesses.
  - *In-house provision* permits close political control and accountability. It is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers.
  - *Contracting out* is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients.
  - *Managed markets* allow multiple providers to compete for market share. They can encourage efficiency, investment and innovation, but are complex to design and challenging to implement.
  - *Trust* models and *shared goals* models capitalise on the intrinsic motivation of provider employees and organisations. Shared goals models also promote common ownership of problems and goals, and so encourage constructive and integrated problem solving and creative solutions.
  - *Client-directed budgets* models and *voucher* models (in this report referred to collectively as *client-directed service models*) offer much when the client (or their agent) is best placed to decide what services they receive. These models motivate providers to offer good value to clients, encourage innovation and empower service clients.
- There is significant scope to use a wider range of service models in New Zealand. Client choice should be built into service design to the extent appropriate, even where client-directed budgets and voucher models are infeasible.
- Many of these models require a mental shift for funders and commissioners, from being in direct control to *service stewardship*. This requires ongoing monitoring of service performance, and re-visiting design choices as necessary to improve service outcomes.
- The commissioning of social services is a challenging task. It is not generally undertaken in New Zealand in a structured, consistent and effective way. Commissioning organisations should actively build the required skills, capability and knowledge base. Commissioning requires careful design, reflecting the characteristics of a particular service.

- Government should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decisions. Legitimate options for funding include full funding, contributory funding, tied and untied grants, and no funding.
- Government should fully fund those services for which it controls service goals. Payments should be set at a level that allows an efficient provider to make a sustainable return on resources deployed, and so encourage investment by existing providers and entry by new providers.

Commissioning is a set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. Effective commissioning is fundamental to a well-functioning social service.

Commissioning is not independent from designing a system architecture. Questions that arise in commissioning influence architecture, and vice versa. This report covers system architecture in Chapter 5 and commissioning in this chapter. This split may be less than obvious in real-life examples of policy development, where decision makers are often adapting to some recent learning and shifting agendas. However, the split emphasises that:

- two decisions are being made, even if one is implicit;
- these decisions operate over different time periods – decisions about system architecture may be expected to last a decade or more, while commissioning decisions are typically re-visited more frequently; and
- the responsibilities of commissioning organisations vary – one may be responsible for commissioning a single service, while another could manage a commissioning "pipeline" dealing over time with tens or hundreds of services.

Good commissioning involves clarifying objectives (section 6.2) and solid research and analysis (section 6.3).

A key commissioning task is choosing a service model appropriate to the circumstances. Section 6.4 introduces seven models. Two of these service models (client-directed budgets and vouchers) are further detailed in Chapter 11. Issues specific to in-house provision are explored in section 6.9. Purchasing and contracts are important features of contracting-out and managed-market models, and are relevant to some other models. These topics are examined in Chapter 12.

Sections 6.5 and 6.6 examine the detailed design and implementation tasks that face the commissioning organisation.

Section 6.7 introduces service stewardship. Stewardship includes ensuring healthy, capable and sustainable providers. An important factor is the prices that government pay for services, as government is the major funder and purchaser of social services.

The skills required for successful commissioning are discussed in section 6.8.

6.1 From policy objectives to service delivery

Governments need a process to turn citizen expectations and political commitments into tangible service delivery. This report adopts the term *commissioning* to describe a deliberate approach to that process. The Commission acknowledges that the term has a wide variety of definitions and interpretations, which can be a source of confusion (Box 6.1).

Box 6.1 **Defining "commissioning"**

Definitions of *commissioning* vary widely. Dictionary definitions include project initiation and testing prior to final delivery. Other definitions overlap with purchasing and procurement. Over the last decade a broader use of the term has emerged, particularly in the United Kingdom, to describe a process specific to public services. Though there is no single agreed definition of commissioning, the many definitions (in the relevant literature) have clear similarities and themes. These definitions include:

> Commissioning is a process that starts with understanding the needs of the end users of services. It is not procurement, the purchasing of goods by Government, as it is about delivering a service not buying a commodity. (Moss, 2010, p. 4)
>
> Commissioning is the process which includes assessing the needs of people in an area, designing and then achieving appropriate outcomes. The service may be delivered by the public, private or civil society sectors. (Bolton, 2015, p. 2)
>
> [Commissioning is the] process of identifying needs within the population and of developing policy directions, service models and the market, to meet those needs in the most appropriate and cost effective way (Institute for Public Care; cited in Alder, 2010, p. 6)
>
> [Commissioning describes] a process for initiating strategic analysis of market needs for particular types of public sector human-based services (such as social care, back-to-work programmes and so on), followed by service design/specification and procurement processes…to provide those services to deliver the desired outcomes. (Chartered Institute of Purchasing and Supply, n.d., p. 14)
>
> Commissioning is the process through which public services are authorised and funded. This begins with decisions about service outcomes and the means through which results will be delivered. Depending on the service in question, it may involve commissioners in the design and management of systems, markets or supply chains. (Sturgess, 2015, p. 13)

The Productivity Commission sought a definition that was consistent with the inquiry's terms of reference, conceptually sound and able to be operationalised. It chose the following definition:

> *Commissioning* is the set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services.

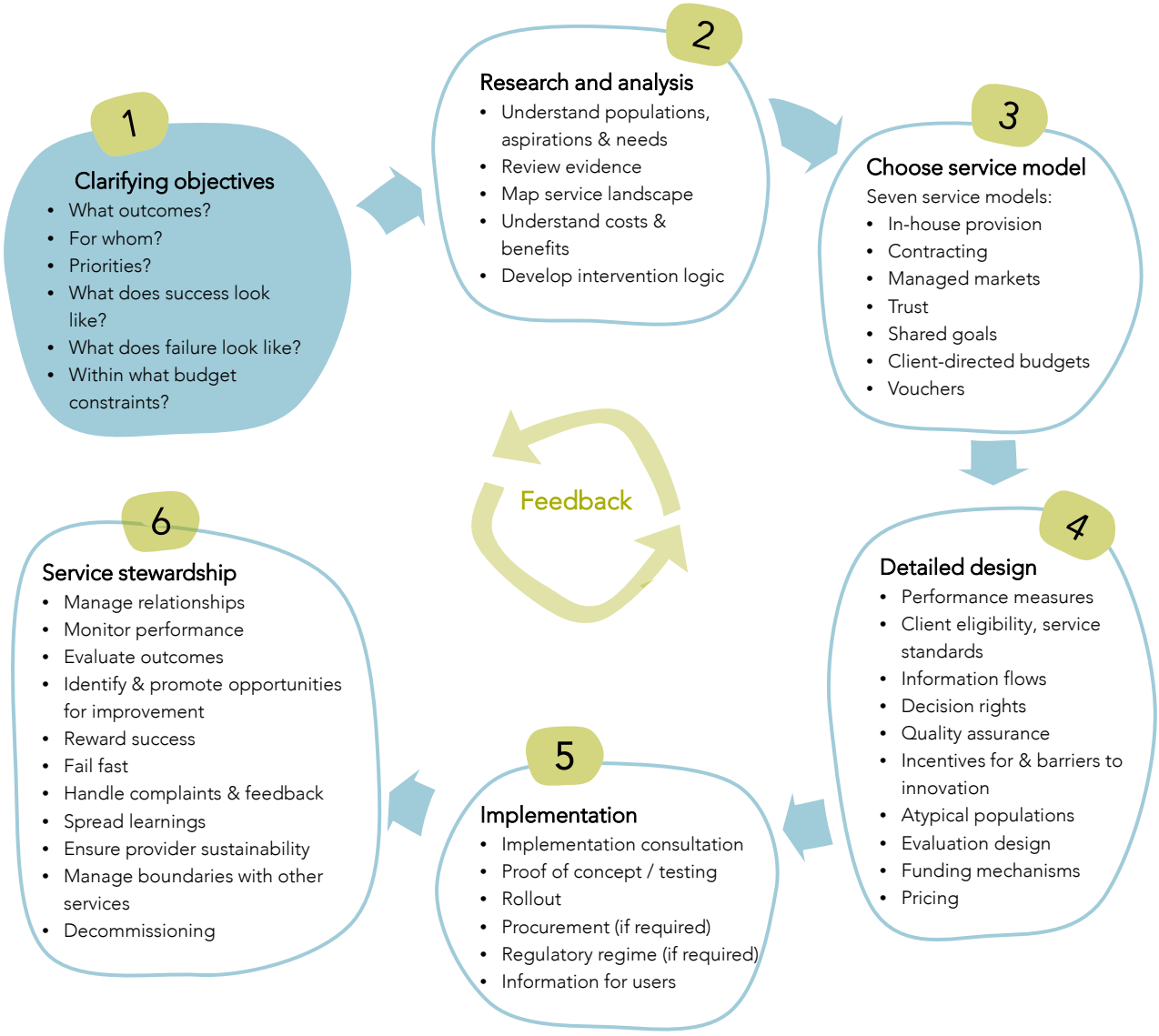
Commissioning

This report defines c*ommissioning* (in the context of social services) as the set of inter-related tasks that need to be undertaken to turn policy objectives into effective social services. Figure 6.1 groups and summarises these tasks.

Effective commissioning is fundamental to well-functioning social services. Commissioning organisations need to make informed, deliberate choices. They should clarify objectives, research and analyse populations and interventions, choose appropriate service models, address detailed design issues such as pricing and quality, and carefully implement and steward the resulting services.

An important commissioning task is considering the needs of clients who require multiple services, and the appropriate grouping of services. Commissioning services on an objective-by-objective basis might be optimal for the specific objectives, but runs the risk of an inefficient and ineffective overall system. Interactions between services are complex, and the provision of services has economies (sometimes diseconomies) of scale and scope.

Figure 6.1 Commissioning tasks



Mistakes during commissioning ripple through the system until they reach the frontline of service delivery. Yet New Zealand's approach to commissioning is patchy (Chapter 2; Chapter 4). Too frequently government agencies commission services in isolation of one another, resulting in a disjointed tapestry of contracts, and forcing clients to navigate multiple eligibility procedures. Bureaucratic processes are used to select providers and offer providers little reward for good performance. The tendency of agencies to roll over contracts, in some cases for decades, makes it is difficult for new providers to enter the market. Clear pricing principles are lacking. And whether government is "purchasing a service" or simply making a "contribution" to service delivery is often unclear.

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

F6.1 Effective commissioning is fundamental to well-functioning social services. It is a challenging task. It is not generally undertaken in New Zealand in a comprehensive, structured, consistent and effective way.

Commissioning is a wider concept than procurement

The concept of commissioning includes the purchase and/or delivery of services, but only where those are an integral part of the chosen service model. This means that the term *procurement* is not a synonym for

commissioning. Procurement starts from an assumption that government will be purchasing a market-supplied service (Box 6.2).

Box 6.2 ***Commissioning* is a wider concept than *procurement***

The Ministry of Business, Innovation and Employment (MBIE) saw the draft report's definition of commissioning as "being highly similar to the government's definition of procurement". MBIE's comment referred to an included diagram that featured two essential steps: "approach market and select suppliers" and "negotiate and award contract", describing these steps as government's "traditional area of focus and current capability". (sub. DR153, p. 1)

Neither of these steps are essential in a social services commissioning process. Commissioning – as described in this report – starts by asking what is the best way to achieve a specified outcome for a defined population? It does not assume that government will purchase a service from a market.

Commissioning *may* lead to procurement. But it may not. A procurement process could not have led, for example, to the Early Childhood Education system in New Zealand or to the National Disability Insurance Scheme in Australia.

Social services have unique characteristics that make them unsuited to a narrow procurement model (Appendix F). Public policy should make allowance for those characteristics.

This report's concept of *commissioning* emphasises that a wider range of skills and capabilities are required than for procurement, and that a wider range of options are available to commissioning organisations than contracting out.

Commissioning organisations

Depending on the system architecture in place, commissioning tasks may be undertaken by government agencies, Crown entities or organisations independent of government. This report uses the term *commissioning organisation* to emphasise that commissioning can be undertaken by a wide variety of organisations. In many cases commissioning will require the involvement and cooperation of multiple organisations, each of which may take full or part responsibility for different tasks. This chapter describes commissioning in terms of a single commissioning organisation for presentational clarity.

Commissioning tasks

Sections 6.2 to 6.7 discuss commissioning tasks, grouped according to the sequence laid out in Figure 6.1. In practice the tasks are not undertaken in strict sequence. Rather, information uncovered in (or anticipated from) later tasks can – and should – feed back to inform and affect decisions in earlier tasks.

Consultation

Consultation during commissioning has three distinct purposes. First, consultation is a means of finding information held by others that can be used to clarify objectives and design a better service. Second, consultation is a means of building wider support for, and ownership in, a service design. Third, consultation may be necessary to meet a wider obligation (eg, a Treaty relationship).

Consultation may take different forms and involve different people during different phases of commissioning. For a new service, only representatives of users or providers can be involved in design phases. Actual providers can become involved in later phases, and actual users once the service is deployed.

Providers, clients, client representatives and commissioning organisations may hold different views about the purpose of consultation. Service commissioners should be clear why they are consulting and convey this clearly to those consulted. This avoids creating unrealistic expectations and imposing unnecessary costs on those consulted.

Provider consultation

The importance of early consultation of service providers and user groups has long been recognised. For example:

> It is fundamental that potential and actual service user needs form the basis for the specification and monitoring of social service delivery contracts. Consultation with service providers and user groups and regular surveys of individual users should be an inherent part of agencies' systems and procedures for formulating contract specifications and performance monitoring criteria. (Deloitte Ross Tohmatsu, 1993, p. 15)

While the benefits of consultation are recognised, implementation appears patchy. For example, Health Care of New Zealand Holdings considered:

> There is an important opportunity prior to going to market to work with the sector to define the requirements so that the best outcome is achieved for the community. This kind of sector collaboration prior to such processes is not happening often enough or in a way that improves the quality of the process. (sub. 51, p. 13)

Many providers are attracted to the concepts of "co-production" and "co-design", which includes wider involvement in design, governance and ongoing service management and delivery (Box 6.3).

Box 6.3 **Co-production and co-design**

Matahaere-Atariki et al. (2008) described co-production in a Māori context:

> Co-production is more than a "bottom up" community development model and does not aim simply to promote community planning and user-focused services. It involves a more active role for iwi and Māori authorities in designing and delivering local services, as well as providing the opportunity to influence the policy process by working with government to invest in shared outcomes for Māori. (p. 34)
>
> The concept of co-production was developed by a group of academics at the end of the 1970s in reaction to what they considered were problems with dominant theories of the time about urban governance and centralisation, and to address the failure of conventional development programmes... These academics were concerned with the idea of engaging citizens in both the design and production of public services. At the same time, Edgar Cahn was developing his concept of an alternative currency he termed "time dollars". Cahn developed a theory to explain why and how this currency could change the dynamics of social welfare programmes, which he too termed co-production... Both models have similar aims: to give responsibility to and involve those who have in the past been regarded as "the problem" in creating solutions for themselves. It is the opposite of deficit thinking and offers an alternative to only public or only private service provision... (p. 35)

The Wise Group supported a co-design approach,

> generally described as "a product, service, or organisation development process where design professionals empower, encourage, and guide users to develop solutions for themselves. Co-design encourages the blurring of the role between user and designer, focusing on the process by which the design objective is created". (sub. 41, p. 17)

The terms co-production and co-design share the idea of involving more than one party in important steps of the service delivery process, from conception through to the point of delivery. But they are difficult terms to define. Their use often reflects different ideas about what is important, who should be involved and at what stage, and who should exercise control over what decisions.

> The engagement of the vulnerable person is as vital to the outcome as every other consideration. And yet, they are often overlooked in restructuring considerations….*what* is done is not more important than *how* it is done. The social sector is about relationships, because client change is about relationships. (Anglican Advocacy, sub. DR180, p. 1)

For social services sometimes it is not what is delivered, but how. The nature of the relationship is part of the service. And control and influence over decisions affects the nature of relationships.

This report uses *co-design* to refer to multi-party processes that aim to improve the design of a service. Such design changes will affect many service users. A new service goes through many design stages. Early stages might bring in representative providers; and later stages actual providers and representative users. Actual users might be involved during trials or once the service goes "live". The concept of co-design overlaps with devolved architectures (Chapter 5), the shared goals and trust service models (section 6.4) and devolution to Māori organisations (Chapter 13).

This report uses *co-production* to refer to client involvement in tailoring services to meet their own specific needs. The concept of co-production overlaps with client-directed budgets (section 6.4; Chapter 11), Whānau Ora navigators (Appendix C) and the approaches for dealing with the most disadvantaged New Zealanders discussed in Chapter 10.

Co-design can be valuable for complex services where expertise and information is widely dispersed, and where it is crucial to build wider support for, and ownership in, the service design. Service commissioners should be very clear about the limits within which co-design operates; that is, which aspects of the service are being co-designed and which remain the responsibility of the service commissioner. Failure to be explicit will likely frustrate participants (Appendix D).

Consultation can cause delay, and involves costs. Commissioning organisations should therefore target those most affected by the service and match the amount of consultation to the size and complexity of the service to be supplied, and the value expected from that consultation.

Client consultation

Service clients can have information that no-one else has. So it makes sense to access and use that information. However, that information can be difficult to access. Service providers may be the best proxy of client views for some difficult-to-access clients (eg, homeless people). Yet some clients (eg, people with disabilities) have capable and effective advocacy groups.

Clients may be better able to judge service quality than can service commissioners. This ability can be exploited through choice of service model (eg, vouchers).

It is unreasonable to expect clients to be professional service designers. Commissioners should seek the combination of client-held information and professional expertise that leads to the best service design.

F6.2 Consultation with service providers and users during commissioning can discover information that can be used to clarify objectives and design a better service, and to build wider support for, and ownership in, a service design. But consultation can cause delay, and involves costs.

Consultation is not a panacea:

> The Mission cautions the Commission as to the design of consultation with service users. The model used in Mental Health is now widely derided for providing lip service value only. "Consultation" may be better achieved through more comprehensive use of client-derived data. (Methodist Mission, sub. DR135, p. 5)

Consultation should be undertaken with clear aims in mind, and not overpromise the degree of influence of those consulted.

F6.3 Commissioning organisations need to define clearly why they are consulting, and design their consultation programme to satisfy that objective. They should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

6.2 Clarifying objectives

Clear objectives are an essential pre-requisite for effective commissioning. Objectives may come from the political process (citizen expectations and political commitments made in response to those expectations). They may also come from funders. In clarifying objectives, commissioning organisations should seek clear answers to the following questions:

- What outcomes are sought?
- For whom (what part of the population) are these outcomes sought?
- What might success look like?
- What would constitute failure?

There is a delicate balancing act here. The answers should be reasonably specific in terms of ends, but not pre-determine the means for achieving those ends.

It is also important to clarify budget constraints. Later steps in the commissioning process may determine that the outcomes sought cannot be achieved within that budget. This should feed back into a discussion about revised objectives, the budget, or both.

Pushing back

Policy objectives are often expressed in "comfortable" language that avoids, for example, mentioning trade-offs and being too specific about who benefits or pays. Policymakers may lack the incentives to challenge themselves or their superiors. But it is crucially important that someone, somewhere in the system, pushes back hard enough to achieve clarity. Service commissioners should be a source of such pushback. They need both incentive and the authority to do so. Devolved commissioning can change these incentives.

6.3 Research and analysis

Conventional markets work within a legal framework determined by government.[43] Standard market mechanisms, operating within the legal framework, can be relied on to set prices, communicate information, resolve disputes, and provide incentives for investment and innovation. This approach is reasonably generic, in that it (relatively) rarely requires extension for specific products and services.

Social services are not delivered by means of conventional economic markets (Appendix F). As social services have varying characteristics, typically the framework needs to be customised for the specific social service. This involves a clear understanding of the targeted population, its needs, aspirations and capabilities. It also requires an understanding of the interventions available and the situations and people for whom they work.

Understanding interventions

The efficacy or otherwise of social-service practices, approaches and programmes is highly dependent on the situation. Where good evidence exists, that evidence should drive the choice of intervention. Where such evidence is missing, building an evidence base should be a priority. Commissioning organisations should be open to multiple perspectives in their search for effective practices.

Some inquiry participants submitted that the Commission should express a clear preference for "strengths-based" approaches (Box 6.4).

[43] In New Zealand, this framework includes the Sale of Goods Act 1908, the Consumer Guarantees Act 1993, the Contractual Remedies Act 1979 and the Fair Trading Act 1986.

Box 6.4 **Strengths-based and deficit approaches**

"Strengths-based" is a relatively well-defined concept in a practice setting:

> Strengths-based practice is a collaborative process between the person supported by services and those supporting them, allowing them to work together to determine an outcome that draws on the person's strengths and assets. As such, it concerns itself principally with the quality of the relationship that develops between those providing and being supported, as well as the elements that the person seeking support brings to the process. (Pattoni, 2012, p. 4)

But it is not a reason to don "rose-coloured glasses":

> Focusing on strengths does not mean ignoring challenges, or spinning struggles into strengths. (Pattoni, 2012, p. 2)

Some inquiry participants contrasted "strengths-based" approaches against "deficit" or "problem-based" approaches:

> We support the social sector view that, where possible, a shift from a problem centred focus to a strength-based approach enable services to be more responsive both to client needs and for the provider to reach outcome milestones in a developmental context. (SmartGrowth, sub. DR142, p. 4; Social Sector Innovation Trust, sub. DR174, p. 3)

Te Rūnanga o Ngāi Tahu were concerned that framing situations as problems could undermine building from the existing strengths of whānau:[44]

> The focus for Te Pūtahitanga is to support Māori aspirations and leverage off inherent Māori strengths, rather than regarding whānau as a problem to be fixed from the outside. (sub. DR162, p. 3)

Some submitters extended these concepts from the practice to the policy arena:

> Those drafting policies around gathering data need to reconsider the language being used to describe 'outcomes' they are seeking. Suggesting "social problems" can be solved by single or multiple providers is a deficit approach which presupposes that 'social ills' are caused by individuals who have some control over personal circumstances which may frequently be out of their control. Using language such as "social issues" widens the discussion around what works and takes away the notion that if providers fail to deliver positive outcomes it is somehow their fault or the fault of their clients. (Aotearoa New Zealand Association of Social Workers, sub. DR155, p. 5)

Framing a programme or an approach in positive terms, rather than negative terms, can be a useful way to work with individuals and families. But this should not detract from gaining and communicating a thorough understanding of the issues involved in a policy context.

Intervention logic

A further requirement is clear linkages between the interventions applied and the outcomes sought. This is often called an intervention logic or theory of change. An intervention logic helps the identification of intermediate outcomes, which are often important for performance measurement.

Co-existence with other services

Commissioning, as described in this chapter, is mostly undertaken one objective at a time. And often an objective is equated with a specific service.

One could envisage a process starting at the top of a master list of services, deciding on the best way to organise the first service, implementing the necessary changes, and then moving down that list.

[44] Chapter 13 acknowledges and discusses this point.

Yet such a process is unlikely to lead to the best overall solution. It risks a system with many unclear boundaries and accountabilities.

As well as co-existing with other services, new or redesigned services have to fit with the wider policy environment (eg, income support obligations and sanctions) and other initiatives such as social marketing campaigns.

Commissioning requires a wide understanding of the other services and activities that may complement or substitute for the service in question, and of how these services might interact. This is particularly important in the case of services for clients with multiple, inter-dependent problems that require integrated assessment and support. Chapter 10 addresses this case.

6.4 Choosing a service model

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

Over time, much thought and energy have been applied to the "make versus buy" question – whether a task is best undertaken in-house or contracted out (Appendix F). Yet this question, while important, frames things very narrowly, and risks missing the most effective service model.

F6.4 "Make versus buy" is an unhelpful question in social services. It frames the options too narrowly, and risks missing the most effective service model.

Models are useful to help understand real-world observations, and as a basis for discussion of the pros and cons of different ways of organising social services.

This section explores seven service models (Table 6.1). Some models are only applicable to relatively limited circumstances.

Each service model has strengths and weaknesses. The weaknesses are such that pure examples of each model are relatively rare. Those commissioning services typically attempt to reduce the consequences of specific weaknesses by adopting additional features – often those present in other models.

Table 6.1 Service models with examples

Service model	Example	Further information on example
In-house provision	Employment services	Chapter 3; Appendix B
Contracting out	Youth services	Chapter 3; Appendix B
Managed markets	Employment services in Australia	Chapter 3; Appendix B
Trust	General practice[1]	
Shared goals	Canterbury Clinical Network	Chapter 3; Appendix E
Client-directed budgets	Enabling Good Lives	Chapter 11; Appendix D
Vouchers	Early childhood education	

Notes:

1. General practice is also an example of a voucher system, as subsidy payments from government follow client choices of General Practitioner.

In New Zealand, voucher models are common in education but rare elsewhere. The Ministry of Social Development (MSD) and the Department of Corrections use in-house provision and contracting out almost exclusively. Trust models and in-house provision dominate in healthcare. Managed markets are all but absent, and client-directed budgets are rare.

A significant degree of diversity already exists across the social services system. But each of the main delivery agencies appears to limit itself to a small subset of the available service models. There is scope – and likely benefit – for commissioning organisations to make use of a wider range of service models.

In-house provision

In-house provision allows for close supervision. It can be optimal when the costs of contracted delivery are prohibitively high (Williamson, 1999), because, for example, of difficulties in specifying and incentivising desired quality (Appendix F).

In-house provision is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers. However, there are some successful examples of the effective delegation of services that involve statutory powers.

The delivery of transaction processing of payments (such as income support) has strong efficiencies in scale (MSD, sub. DR224, p. 5). This supports having a single provider of such functions, though not necessarily in-house provision.

In-house provision often comes with the standard problems of monopoly supply. For instance, clients cannot choose their provider. In-house providers typically face weak incentives to innovate and to respond to the individual needs of clients. These problems can be mitigated to some extent through exposing the provider to robust performance benchmarking and holding them accountable for the service outcomes to which they have agreed (Sturgess, 2015).

Section 6.9 explores the advantages and disadvantages of in-house provision, and explores ways in which it can be improved.

Contracting out

Contracting out is useful when providers offer specialised skills or capabilities, including access to difficult-to-reach clients. Section 12.1 lists some further reasons why contracting out can be attractive to governments.

Contracting out is the primary service model used for non-government provision in New Zealand. Many of the problems in social services reported in Chapters 2 and 4 are associated with the overuse and poor use of this service model (section 4.2).

Under the contracting out service model, providers face a dominant purchaser. The purchaser is able to exert power in various ways, including through bureaucracy and control over funding. This power is countered (at least to some extent) by the political influence of providers, often wielded through the media. Such political activity (or the threat of it) can lock in provider contracts.

High levels of control dampen bottom-up innovation. Top-down innovation is possible, but is often constrained by highly specific contracts and risk aversion.

Contracting out may do little to overcome the problems of monopoly supply that come with in-house provision. For instance, a client's choice of provider remains limited, and providers face weak incentives to innovate and to respond to the individual needs of clients.[45]

Competition between providers happens only when contracts are tendered or re-tendered. That competition can be intense; for example, when loss of a tender would threaten a provider's viability. Competition can also be largely absent; for example, when previous tender rounds have resulted in only a single provider being capable of providing the service. It can also be absent if the economies of scale in provision are substantial, due, for example, to a need for large capital investment:

[45] Providers compete for contracts allocated by government agencies. Typically, the service volume or market share of a provider is fixed for the duration of the contract (Chapter 2). This may allow some client choice of provider, though such choice is incidental rather than central to the service model.

> The Blind Foundation is the major supplier of vision rehabilitation services in New Zealand… No other agency offers the same range of integrated services or has the capital investment or intellectual property... (Blind Foundation, sub. 16, p. 22)

Conducting a tendering process requires more than one realistic supplier. Commissioners may need to actively manage the supplier market, or consider alternatives to contracting out (section 6.7).

Social services contracts are typically specified in terms of outputs (Chapter 4), and offer weak incentives for improved performance. Some problems of contracting out might be resolved through increased use of contracting for outcomes (Chapter 12). If outcome-based contracts are impractical, this does not excuse government (or providers) from developing clear intervention logic, from measuring outcomes, and from being clear and upfront about the purpose of the contract and using that purpose as a basis for discussion aimed at improvement. This report refers to such contracts as *outcome-focused contracts*, even though the actual contractual obligations may be specified in terms of outputs.

Contracting out is likely to remain a significant feature of government-funded social services. For some services simple outsourcing is sufficient, but for the vast majority of social services, government cannot just negotiate a transactional contract and then engage in light-handed monitoring. Most social services are much more like a corporate supply chain, where government retains an ongoing responsibility for how services are delivered. Contracting out should never be an abrogation of responsibility, rather it should be the result of a deliberate decision that contracting out is the best way to fulfil the commissioning organisation's responsibilities.

Chapter 12 covers the issues involved in contracting out, and recommends ways to improve purchasing and contracting processes.

Managed markets

Managed markets allow multiple providers to compete for market share. Social services are not regular "markets", so market share needs to be set administratively rather than implicitly through the actions of providers and clients.

Employment services in Australia is a good example of a managed market (Chapter 3; Appendix B). Around five providers compete in each geographic service area. Market share is initially set through a tender process; after that it changes (within pre-defined limits) as clients are allocated on the basis of published performance ratings, and through explicit client choices. Prices and service standards are set by government.

The recently established social housing market is a New Zealand example (Chapter 3).

Managed markets are complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

Providers have some flexibility as to how they provide services and how they package services for particular clients. This, combined with rewards based on performance, can encourage innovation.

The employment services system in Australia has tended to accrete rules over time, and become over-specified, reducing provider flexibility (Appendix B). This may reflect the fact that it is embedded in a top-down control architecture. The solution applied to date could be described as a periodic "system reset" – re-thinking and re-establishing the system every six years or so.

Managed markets also incentivise better performance by providers – relative to contracting out – to the benefit of clients and funders. This happens through ongoing competition for market share. However, these incentives can also encourage providers to "game" the system (ie, find ways to increase their income without improving client outcomes).[46]

Competition for market share is on the basis of quality rather than price.[47] So information about quality is important to this service model. Commissioning organisations typically collect and publish information on

[46] See Besser (2012) for an example affecting employment services in Australia. Also see the discussion of cream skimming and parking in section 6.5.

[47] A managed market could allow for variable client co-payments (at least in theory). This would bring in an element of competition on the basis of price.

provider performance and service quality. That information can be used to allocate market share or to influence client choice of providers.

Relative to contracting out, managed markets can reduce the financial risks of providers. They support gradual changes in market share, allowing more time and opportunity for providers to react to signals of poor performance. This is different from contracting out, where contract loss might be the first signal of poor performance, with a consequential harsh transition from 100% to nil market share.[48] Similarly, managed markets allow for gradual entry by new providers.

By lowering financial risk and incentivising better performance through market share, managed markets can encourage investment and innovation.

F6.5

Managed markets – in which market share is set administratively in response to provider performance – are likely to stimulate better performance and more innovation than where services are simply contracted out. Managed markets reduce the financial risks of providers, as they allow more time and opportunity to react to signals of poor performance (relative to loss of contract).

However, managed markets can be complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

Trust

The *trust* model (Le Grand, 2007) describes the provision of social services where (usually professional) providers are trusted to design and deliver the service that clients need, with minimal oversight and control by funders.

The trust model reflects a view that only those in certain professions and/or who work closely with clients really understand the needs of those clients. According to this view, intensive oversight, control and measurement are counterproductive. They likely reduce the motivation of professional and voluntary staff, detract from service quality and reduce the tailoring of services to individual client needs.

Trust models rely on ethical behaviour. In practice, some service providers may exploit opportunities for personal benefit. This is one reason why trust models are usually combined with occupational regulation. Trust models are not inherently equitable, or responsive to client needs (Le Grand, 2007).

Trust models assume that the interests of clients, professionals, provider organisations and funders coincide. Many provider organisations would prefer untied grant funding, reflecting their "trusted" role. However, untied grant funding does not necessarily suit funders, as they are accountable to others (eg, taxpayers and donors) for their spending.

Trust models feature prominently in the social services landscape. In New Zealand, services are generally organised along the lines of professions – similar to the UK system:

> The pattern of public service providers is still largely very traditional in structure and culture. It is still fundamentally based on professions demarcated in Georgian times (the constable, the school teacher, the turnpike engineer, the social worker, the surgeons versus the apothecaries, the secular academics, the nurse, etc.) which are organised into Victorian institutions (the library, the police station, the town hall, the city universities, the free school, the hospital, the charitable housing, etc.)… (Downey, Kirby & Sherlock, 2010, pp. 7–8)

Organisations based on professions have significant advantages, which goes some way to explaining their durability. These advantages include scale, specialisation and the ability to develop and retain technical expertise. However, such organisations can suffer from professional "capture", elevating the interests of professionals over those of clients or the general public. They also tend to generate cost pressures, as

[48] Providers with a long history of contract renewals or those highly confident of renewal may judge the contracting out model to be less financially risky than alternative models.

professional staff each concentrate on getting the best services for their own clients while ignoring the overall budget.

Trust models may perform well in terms of service integration within the boundaries of a single profession, yet perform poorly when integration across those boundaries would be useful. That problem may be better addressed using a shared goals model.

Bevan and Wilson (2013) report on the results of natural experiments comparing the performance of schools and hospitals in the United Kingdom. The trust model adopted in Wales performed worse than the more directive model adopted in England, on what were each government's key objectives. Similarly, the trust model in Scottish hospitals under-performed relative to the "targets and terror" approach in England (Propper et al., 2008).

The weaknesses of trust models can be addressed to some extent by peer monitoring or regulatory oversight, mechanisms to increase client voice, and the imposition of hard budget limits to contain cost pressures.

F6.6 The *trust* service model capitalises on the intrinsic motivation and professional behaviour of providers. This model requires careful design to ensure sufficient peer monitoring and regulatory oversight, and works best with hard budget limits and strong client voice.

Shared goals

The shared goals service model reflects a view that complex social problems are best addressed by the organisations and social services personnel who are near to clients working together to share information, resources and expertise for the benefit of those clients.

The model emphasises that achieving good outcomes often depends on service integration and its ability to:

- reduce client and provider costs (eg, fewer and better sequenced appointments);
- create better outcomes for clients (eg, through adapting service offerings to the needs of specific clients); and
- reduce overall system costs (eg, when early intervention avoids subsequent hospitalisation).

The Canterbury Clinical Network (CCN) is an example of a shared goals model (Chapter 3). CCN is an alliance of healthcare leaders hosted at Pegasus Health (a Primary Health Organisation), governed by a group of health and business leaders. It has only a few employees to perform core tasks yet draws resources from across the Canterbury health system. Clinicians lead CCN's project work. Love (forthcoming) recently reviewed the CCN (Box 6.5).

Box 6.5 **Health service alliances in New Zealand**

A World Bank review of the health service alliance model used Canterbury as a case study. The review concluded:

> Alliances applied to health services in New Zealand are a distinctive model. The approach [uses] alliancing as a mechanism for achieving consensus on integrated service development, particularly in areas where the system is complex, and there are a number of different parties, professions and organisations which need to work together. …the priority is effective service design, which can then be implemented with whatever contractual mechanism is appropriate. The alliance contract is an agreement to participate in good faith with the other parties to the alliance. …
>
> The importance of clear scope definition and relationships of mutual respect appear to be widely recognized, and the value of alliance coaching and facilitation to help participants through difficult

relationships and complex issues is generally agreed. Alliances have demonstrably been successful in facilitating clinically led service design in a number of areas. But the value of imposing alliances upon reluctant parties is controversial, with arguments and some anecdotal evidence on both sides of the issue.

Alliances can bring risks, including risk of failure and wasting [resources] and time. To some extent alliances can bring risks of diluted accountability, but these risks have generally been managed by DHBs in health alliances, and in many respects alliances can be seen as a tool for helping DHBs to manage risks by involving a range of stakeholders in the challenge of designing sustainable services.

Source: Love, forthcoming, p. 15.

Shared goals models capitalise on the intrinsic motivation of provider employees and organisations. Participants take greater ownership and have greater commitment when they set their own goals and actions, relative to when goals and actions are specified from "above".

Service integration is difficult to achieve between organisations with separate goals, cultures, budgets and accountabilities (Chapter 10). Gaining and sustaining service integration where one or more organisations have effective veto power require the creation of shared goals – and ongoing commitment to those goals by organisations with separate governance and priorities. The common ownership of problems and goals encourages constructive and integrated problem solving and creative solutions.

In practice, services using this model exist in a wider environment that includes funders with their own priorities and accountabilities. Commissioning organisations using a shared goals model need to set high-level goals within a broad performance–measurement framework that is acceptable to all participants. Yet it must leave them room to develop their own compatible, yet subsidiary, goals and measures. Box 6.6 provides an example of such a framework.

Shared goals models share weaknesses with trust models. They similarly require peer monitoring or regulatory oversight, mechanisms to increase client voice and the imposition of hard budget limits.

Shared goals models can be slow to create and difficult to sustain (Timmins & Ham, 2013). Success appears to be situation and personnel specific; and working examples can be difficult to replicate (Love, forthcoming). What has worked well in one place may well be thwarted in another, for example, by a group with veto power. Integration of care "does not come easily and is often hampered by professional, organisational and financial silos" (Timmins & Ham, 2013, p. 52).

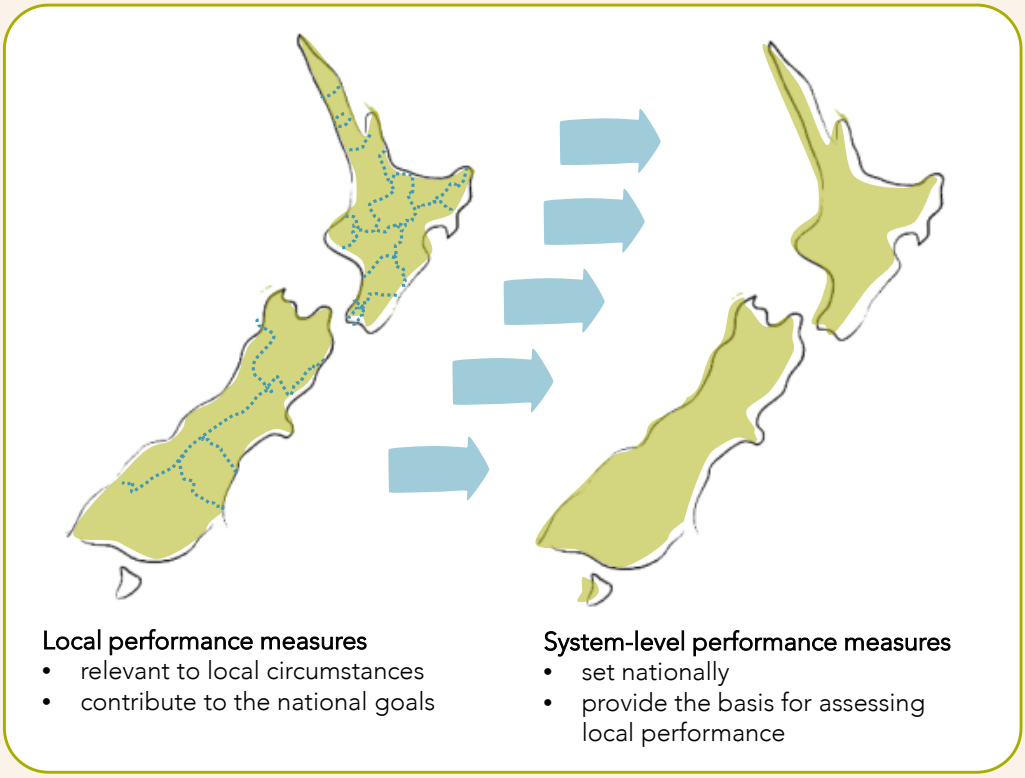
The shared goals model will be undermined if budgets are overly fragmented or come with too many restrictive conditions. Participants need sufficient decision rights over sufficient resources to actually affect the relevant goals.

Collective Impact is an approach that has many features in common with this model (Chapter 3). Collective Impact similarly emphasises that goals must be measureable, progress against those goals must be transparent, and participants must hold each other to account. A separate backbone organisation is part of the collective impact model, "with staff and a specific set of skills to serve as the backbone for the entire initiative and coordinate participating organisations and agencies" (The Impact Collective, sub. 130, p. 12).

Box 6.6 **Integrated performance and incentive framework for the health system**

The Expert Advisory Group (2014) proposed a framework, which seeks to balance the local responsibility and discretion needed for innovation and quality improvement, and accountability for performance in meeting national health goals. The framework relies upon system-level performance measures that are set nationally and provide the basis for assessing local performance (Figure 6.2). District Health Boards (DHBs) are required to choose local measures that contribute to the national goals in ways relevant to local circumstances.

Figure 6.2 Integrated performance and incentive framework



The framework anticipates an environment of high trust, in which local relationships set the agenda for quality improvement, within overarching national goals.

Measures would be reported both for the population as a whole, and for specified subgroups. System measures would be assessed yearly. DHBs would be categorised into one of four levels of performance: *breakthrough, excellence, improvement* and *entry/pre-requisite*. Incentives for better performance would have professional and financial components, including pathways for trusted referrers to have rapid access to key services; acknowledging and rewarding the expertise of trusted and experienced professionals; direct payments; and greater freedom to manage services and capability. DHBs that do not meet minimum standards would, after an opportunity to improve, face increased monitoring and intervention, and other sanctions.

Source: Expert Advisory Group, 2014.

F6.7

The *shared goals* service model reflects a view that complex social problems are best addressed by the organisations and social-services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

This service model promotes common ownership of problems and goals, and so encourages constructive and integrated problem solving and creative solutions.

Organisations commissioning services using a shared goals model need to set high-level goals within a broad performance–measurement framework that is acceptable to those participating and that leaves them room to develop their own compatible, yet subsidiary, goals and measures.

Client-directed service models (budgets and vouchers)

Client-directed budgets and *voucher* service models have many similar characteristics. This report refers to them collectively as *client-directed service models*. They require either an informed, motivated client to make decisions, or an agent that can be trusted to decide on the client's behalf:

> [C]lient directed budgets and vouchers [are] a strength based approach recognising the clients' rights to participating in their own service delivery choices. Clients in crisis and/or living chaotic lives are not always well placed to make these decisions. (New Zealand Council of Christian Social Services, sub. DR201, p. 5)

Le Grand (2007) presented a case for a clear preference for these service models, provided that design challenges are overcome and a real choice between providers is offered to clients. Le Grand's preference is based on the model's ability to be equitable, efficient and responsive, and to generate the highest client benefits.

Design challenges include that clients may lack the information required to make informed choices, or travel costs may constrain their options. Providers may collude or "cherry pick".[49] Needs assessment, budget setting and the allocation of budgets to clients are difficult tasks and may become highly politicised.

Client-directed service models allow good providers to expand at the expense of poor providers. In so doing, they encourage providers to be responsive and efficient. Unlike most of the other models, they encourage investment and bottom-up experimentation. Providers benefit from being able to supply a mix of quality and types of service better matched to what their clients want.

The essential difference between client-directed budgets and vouchers is that in the former the client is allocated a specific amount of money – a *budget* – and they can divide that budget as they see fit to purchase the best mix of services for them.[50] By contrast, a *voucher* is an entitlement to a particular service offered by multiple service providers. The client gets to choose the provider, but the voucher cannot be divided.

Tertiary education provides a good example of a voucher service model. Eligible citizens and residents have an entitlement to enrol for a bachelor's degree at a New Zealand tertiary institution of their choice. They are free to choose when and with whom they enrol. The institution's funding from government reflects their choice.

F6.8 The voucher service model is in common use in New Zealand. The essential characteristic of this model is that client choice of providers drives the allocation of funds to those providers from government. This process may be largely invisible to clients. Examples include early childhood education, universities and general practice.

Client-directed service models offer much when the client (or their agent) is well placed to make service consumption decisions. These service models motivate providers to offer good value to clients, encourage innovation and empower service clients. Client choice of provider supports gradual changes in market share and allows for gradual entry by new providers. This reduces the financial risks of providers (relative to a contracting-out service model).

These models, the specific conditions under which they could be applied, and relevant design issues are covered in more detail in Chapter 11.

Comparing service models

Table 6.2 summarises the service models, outlining the problems they seek to address, key assumptions and their strengths and weaknesses.

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[49] "Cherry pick" in this context means providers taking actions to ensure that, on average, they deal with easier or more profitable clients.

[50] Under some schemes the "budget" is a specified number of hours of service provision. Essentially, the "hour" becomes the unit of allocation. Money is disbursed according to those allocations (behind the scenes).

Table 6.2 Service models: strengths and weaknesses

Model	Problems addressed	Assumptions	Strengths	Weaknesses
In-house provision	Lack of external providers, need for tight administrative control	Knowledge at the centre, bureaucrats can best judge quality	Improved performance (short term), responsive to political concerns, uniform delivery	Risk aversion, lack of innovation, lack of adaptation to client or local conditions
Contracting out	Insufficient accountability for performance, insufficient in-house skills	Knowledge at the centre, bureaucrats can best judge quality, contestability through tendering improves performance	Improved performance (short term), some adaptation to client or local conditions, access to specialist skills	Over prescription, risk aversion, lack of innovation, limited performance feedback
Managed markets	Insufficient accountability for performance, insufficient contestability	Competition improves performance	Efficiency, investment, innovation, reduced financial risk for providers	Complexity of design, high setup costs, risk of provider gaming
Trust	Under-use of intrinsic motivation, concerns about quality shading	Interests of providers, clients and funders coincide; providers are best judge of quality	Intrinsic motivation encourages better performance; some adaptation to client or local conditions	Difficult to measure performance, limited accountability, low innovation, inefficient resource allocation
Shared goals	Lack of knowledge at the centre, fragmented services	Shared information and decision making improves performance, providers are best judge of quality	Increased integration, adaptability, provider commitment, intrinsic motivation encourages better performance	Difficult to reproduce, lower accountability, lower transparency, may not be sustainable
Client-directed budgets	Client rights and preferences not respected	Competition improves performance, clients can judge quality	Efficiency, clients allocate resources to their most valuable use, equity, innovation	Difficult market design, boundary issues, clients may not have the information to make good decisions, achieving consistency in needs assessment
Vouchers	Client preferences not respected	Competition improves performance, clients can judge quality, multiple providers	Efficiency, respect for client preferences, equity, innovation	Cream skimming, competition on "wrong" dimensions

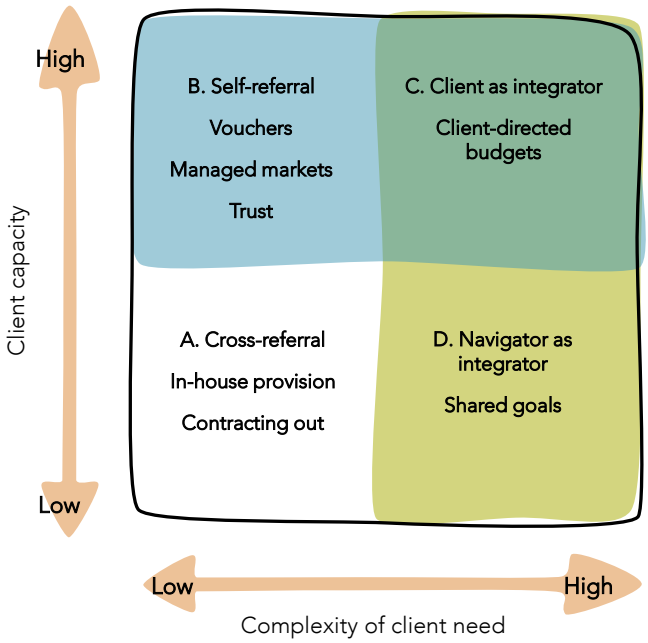
Matching a service model to objectives

Each service model has different strengths and weaknesses. Service model choice involves trade-offs, and the service commissioner needs to understand the consequences of their decision. The following sections offers generic guidance to assist this choice. The Commission emphasises that it is not a matter of the best service model, rather it is the best match to the objectives sought.

Matching service model to client characteristics

Chapter 2 introduced a four-quadrant classification of clients. Each service model has strengths and weaknesses that make it relatively more or less suited to these quadrants. Figure 6.3 presents a "best fit" between service model and client characteristics. These matches, while not definitive, offer a good starting point for analysis.

Figure 6.3 Matching service models and client characteristics



Client-directed service models require relatively high levels of client capacity. They are best applied to the upper quadrants (B and C). More specifically, voucher models are most suitable for clients in quadrant B (those who require relatively few distinct services), and client-directed budgets for those in quadrant C.

Managed markets, trust models, contracting out and in-house provision are best applied to clients with relatively straightforward needs (quadrants A and B). This is because those models, for different reasons, tend to be bound to a single service or profession.[51] Relatively capable clients are a source of useful service performance information in managed markets, suggesting a best match with quadrant B. The trust model implicitly assumes that providers are the primary judge of client preferences and needs. This weakness is typically countered by mechanisms to give clients a stronger voice in the system (eg, to report poorly performing practitioners). This in turn assumes relatively capable clients, suggesting the trust model is best placed in quadrant B.

In-house provision and contracting out make no assumptions about client capacity; so both could be in either quadrant A or quadrant B. However, the presence of other better-matched models in quadrant B suggests allocating them to quadrant A.

The shared goals model is inherently cross-profession, which makes it well suited to clients with complex needs (quadrants C and D). However, client-directed budgets make better use of information held by capable clients than teams of professionals. This suggests placement in quadrant D. This is not, however, a strong match. A shared goals model in this space likely requires explicit supplementation to enhance the voice of clients and their families.

Commissioning organisations should consider a wide range of service models

Table 6.2 emphasises that there is no widely-applicable "best" model. Rather, it is important to match the model to client characteristics, the problem faced and the outcome sought. One challenge is to do this with an eye towards overall system efficiency. It is easy, for example, to concentrate on reducing administration costs and miss bigger opportunities for early intervention or service innovation.

[51] Specifically, managed markets require very clear performance criteria, which are difficult to measure for clients with complex needs. They are more likely applicable to standardised rather than highly tailored services. Trust models do not extend well across professional boundaries. In-house provision is organised from within agency silos, and is therefore poorly matched to client needs that cross agency boundaries. Contracting out – at least in theory – is not bound to agency silos. But, in practice, agencies often view contracting out as an alternative to in-house provision, and design contracts accordingly.

R6.1 Commissioning organisations should consider a wide range of service models, and carefully select a model that best matches client characteristics, the problem faced and the outcome sought.

Respecting and empowering clients

Social services should, to the extent feasible and appropriate, respect the preferences of clients and value their time. For these reasons, the Commission generally leans towards client-directed service models. But these models are not meaningful unless the client can choose services, providers or both. Where these models are not applicable, clients may still benefit from choice over other service attributes. Even control over small things can make a big difference to clients and their families, such as choosing which professional they work with, or being offered their choice of appointment times.

The Commission believes that commissioning organisations should always consider client-directed service models. However, these models are not always applicable. Where other service models are chosen, that does not mean client choice is unimportant. Client choice over other service attributes should be provided if client benefits outweigh any additional costs.

R6.2 Commissioning organisations should always consider client-directed service models, as they empower individuals and can lead to more effective services. (These models are most applicable for clients in quadrants B and C.) Where other service models are used, clients should be able to exercise choice as far as possible (as long as the benefits for clients outweigh costs).

Contestability can encourage performance improvement and innovation

A basic distinction between service models is the degree and type of contestability in provision. This varies from:

- internal contestability (in-house provision, trust, shared goals); to
- contestability based on the funder's assessment of performance (contracting out, managed markets); to
- contestability based on the client's assessment of performance (client-directed budgets, vouchers).

Contestability by itself is only valuable if the "contest" is on useful measures of performance:

> As the price is set by Government and reliable performance data is rare, contestability in the social services sector has traditionally been a question of character, not a competition for excellence. (Methodist Mission, sub. 4, p. 18)

Service models where contestability is based on client assessment of performance are less likely to have this problem. It remains a problem for the other service models. This suggests those models need to be supplemented by measures to improve the collection, dissemination and analysis of performance data.

Interaction with institutional architecture

The choice of service model is not independent of system architecture (Chapter 5). The choice can, to some degree, ameliorate or amplify problems inherent in architectural choices. These interactions might be complex, and this report cannot reasonably cover all possibilities. Yet some interactions can be reasonably predicted.

- For architectures with top-down control, it is important to increase diversity of experiments, providers and judges of quality. This would favour the managed markets, trust, shared goals, client-directed budgets and voucher service models.
- Devolved architectures can offer commissioners some insulation from political influences. Contracting out becomes less problematic under these circumstances.

- Architectures with contestability between commissioning organisations allows for benchmark competition. This ameliorates one of the problems with in-house provision.

Changing service models

Many of these models require a mental shift for government, from being in direct control to stewarding a system and enabling it to function well.[52] This mental shift is challenging, but better information and data (Chapter 8) can make loss of direct control less of a problem.

Implementing a change in service model may require enabling legislation and extensive re-organisation of existing arrangements. For example, Australia's National Disability Insurance Scheme moves disability support to a client-directed budget service model from a combination of in-house provision and contracting out. Implementation required a new agreement between federal and state governments, new legislation and the creation of a new agency (Chapter 3).

Chapter 14 discusses wider implementation issues.

Other service models

The seven service models presented above are well-established, with well-researched examples in New Zealand and overseas. This section examines two additional service models. They have interesting features and show promise for future use.

Social bonds

A social bond (or "social impact bond" (SIB)) is a contract between a commissioning organisation, social services providers and investors in which the commissioning organisation commits to pay for improved social outcomes (Chapter 3). Payment depends (in part or in full) on the outcomes achieved that can be attributed to the social services programme.[53] Social bonds typically require an independent assessor who verifies and evaluates the performance of contracting parties to reduce the risk of disputes over performance payment triggers.

Social bonds provide strong incentives and flexibility for investors and providers to find more effective ways of delivering social services.

Social bonds need clear specification of outcomes, and well-elaborated monitoring and evaluation.[54] Developing a methodologically robust outcome measure and payment model that has the confidence of all parties can be time-consuming (Disley et al., 2011; Jeram & Wilkinson, 2015). Public sector agencies have little or no experience with this approach and face a steep learning curve (KPMG, 2014).

Investors might appear somewhat redundant in this model – and just another source of cost. Submitters pointed to the higher cost of finance and to higher transaction costs from involving investors:

> There is, however, inherent additional expenditure in the form of the intermediary and independent assessor costs and the "financial return" paid to investors when delivery is successful. Given that government is set on no additional investment in the sector, these extra costs are likely to be met from within the existing quantum of funds already in play. (Methodist Mission, sub. 4, p. 7)

> Given that income from social services is largely from the State, and given that the State can raise finance more cheaply that the private sector, there are limited opportunities for profit that attract private finance to social services. (Public Service Association, sub. 108, p. 15)

These cost concerns are justified. But bringing investors into social bonds has benefits too. First, investors are less risk averse than either government or typical providers.[55] Second, they add a new party to the mix, with a strong interest in achieving better outcomes. Third, they can bring new skills and new ways of thinking

[52] *System stewardship* is discussed in Chapter 5. The related topic of *service stewardship* is covered in section 6.7.

[53] Strict attribution is not an essential feature of social bonds. For example, payment terms could be based on measurements relative to a control group.

[54] These conditions are not unique to social bonds. They apply to any contract where a significant portion of payment is contingent on the achievement of specified outcomes. Under a social bond it is the investor, rather than a directly-contracted provider, that bears the financial risk of non-performance.

[55] More specifically, investors who choose to take part in social bonds will have this characteristic.

about old problems. Should these benefits outweigh the higher cost of finance and higher transaction costs of this service model, then involving investors would result in a net benefit.

Investors may be unwilling to take on financial risks unless the bond covers a large enough target population to generate valid and stable measurement of changes in outcomes. However, commissioning agencies may prefer small-scale trials until they gain experience with the model.

Participant concerns about social bonds

Community Networks Wellington vehemently opposed "the introduction of Social Impact Bonds to the social services sector" (sub. DR159, p. 7), though its specific reasons were unclear. Other submitters were concerned about private sector involvement in social bonds; for example, the Association of Salaried Medical Specialists believed that "applying business models to the resolution of social issues is inappropriate" (sub. DR156, p. 5). Similarly, the New Zealand Council of Trade Unions (NZCTU) submitted:

> [T]here is a deep cynicism about why and how private sector involvement, particularly of financiers, is going to improve the effectiveness of services. (sub. DR221, p. 7)

The Commission understands that for-profit (FP) entities face different incentives from NFPs, and that these influence behaviour (Appendix F). However, we do not believe the difference to be as stark as painted by some submitters. Both types of entity face strong incentives to survive, and that requires them to make a profit over the longer term (Box 6.10). And making a profit requires careful attention to (at least) two things: creating value for the entity's stakeholders, and careful attention to costs.[56]

Other submitters thought that FPs should not be involved in delivering services to "vulnerable people". However, this seems overly simplistic. The social services system is already a hybrid. Many social services received by "vulnerable people" are provided directly by the private sector (eg, general practitioners, physiotherapists), and private investors play significant roles in some areas (eg, aged care).

The Methodist Mission thought that the additional costs of social bonds would not be justified, and similar benefits could be achieved through more traditional service models (sub. DR135). Community Workers Training and Support Trust similarly thought it "not necessary to develop Social Investment Bonds to achieve something most voluntary organisations have always been good at" (sub. DR208, p. 3).

The Association of Salaried Medical Specialists expressed concern that social bonds were an untried model (at least in New Zealand):

> Our main concern is the apparent willingness to roll out this tool given the current dearth of robust empirical research into SIBs, especially given uncertainties about how well they are likely to function in the NZ context. (sub. DR156, p. 5)

Although relatively new, social bonds are used overseas:

> Since Social Finance launched the world's first Social Impact Bond (SIB) in 2010 we have seen the concept adopted globally, capturing the interest of both policymakers and social innovators. Over the last four years, 25 SIBs have been commissioned in total, by seven different countries, aimed at tackling a variety of social problems. (Social Finance, 2014, p. 1).

However, little empirical data has been produced to date:

> Very little empirical data about SIBs exists; most of the empirical work was qualitative and mostly concerned with the Peterborough SIB. The empirical studies highlighted firstly, the high transaction costs and policy complexity in establishing a SIB; secondly, difficulties in the measurement of outcomes; and thirdly, the potential for innovative practice and improvement in outcomes (Tan et al., 2015, p. 72)

Strong incentives and flexibility for investors and providers to find more effective ways of delivering social services are desirable, but often lacking in traditional service models (Chapter 4). In this context, it is this "potential for innovative practice and improvement in outcomes" that makes it important to investigate alternative models with an open mind, and not to rule them out before empirical studies can validate the claims of their proponents or opponents.

[56] Stakeholders include investors, donors, service recipients, customers and other parties with whom the entity contracts.

Social Service Providers Aotearoa (SSPA) were open to the model:

> SSPA has an open view to any innovative ideas for providing social services more effectively, for example such models as social impact bonds (SIBs). SSPA has recently run a national seminar series on SIBs by UK-based provider Core Assets. In this instance the outcomes were related to children being successfully placed in foster care from residential settings. This model fits certain outcomes, ensures long-term funding for them, but will only ever fill a small/discrete facet of social services; they are not suitable to be seen as the new standard model and will need to be tested in the New Zealand context. (SSPA, sub. DR235, p. 5)

Social bonds have limited application, but show promise

Social bonds, as currently conceived, have limited application. They may be most useful in stimulating the development of new approaches and testing their effectiveness, rather than being applied widely. As experience grows and transaction costs fall, social bonds may be able to fulfil a larger role in delivering more effective social services.

F6.9 Social bonds stimulate innovation by government agencies sharing risk with investors and linking payments to outcomes without prescribing programmes in detail. They may be most useful in stimulating experimentation and testing the effectiveness of new approaches. They may not be suitable for wide application across social services.

Markets for good

The *Markets for Good* proposal builds upon the voucher service model. The main points of difference are:

- vouchers are individualised to each client's specific needs and circumstances, both in terms of desired outcomes and dollar value; and
- providers receive payments conditional on the client achieving the outcomes specified in their voucher.

Its proponents envisage that these vouchers would be applied in social services areas outside those where voucher models are currently used (Box 6.7).

Box 6.7 **Markets for good**

Reform, a UK think tank, recently published a report describing the problems faced in delivering social services in the United Kingdom. These have direct parallels with the challenges faced in New Zealand.

The report recommends the creation of *markets for good*. The essential feature of these markets is a client assessment process that results in vouchers individualised to the client and their circumstances. Each voucher is essentially a promise of payment to any licensed social services provider that can deliver a specified outcome for that individual.[57] For example, an unemployed client facing multiple disadvantages might receive a voucher for £11 000 payable to a provider who finds them employment that lasts for a minimum of two years.

Clients would choose their provider, but cannot switch once that choice is made.

A feature of the proposal is the breadth of the proposed outcomes. The report envisages that vouchers would be issued for around 10 "king outcomes". These would span multiple bureaucratic silos, encouraging service prioritisation and integration.

Providers would be licensed for one or more king outcome. Licensing would be the responsibility of an independent regulator. Licensing would be intentionally "light handed", encouraging new providers into the market.

Source: Haldenby, Harries & Olliff-Cooper, 2014.

[57] A proportion of the payment is made up front, irrespective of success, to reduce the financial risk faced by providers.

This model has many interesting features. It has some foreseeable advantages and problems, and no doubt some unforeseeable ones. The Commission regards it as an interesting yet unproven model that is worth watching.

6.5 Detailed design

Performance measures

Key to good performance measurement is having clear goals and clear service performance metrics, and a strong logic joining the two. A well-designed data infrastructure is essential for quick feedback on the chosen performance metrics (Chapter 8).

Information and incentives for efficient allocation

Price, reputation, advertising, independent quality certification and third-party reviews are some of the mechanisms that spread information about service availability and quality in regular markets. Social services typically lack some or most of these mechanisms. Information generation and dissemination mechanisms may need to be designed specifically to support the proper operation of the service.

It is important for commissioning organisations to address information availability, reliability and dissemination. A service incorporating client choice, for example, will not have the desired effect on provider quality if clients are ill-informed about the quality of providers.

In the Australian employment services system, each provider receives a star rating from the Department of Employment to reflect that provider's success in achieving employment outcomes given the types of clients it serves and the labour market conditions in which it operates. Star ratings are public to inform client choices. They also influence the Department's decisions on market share in each contract round (Chapter 3; Appendix B).

Client eligibility for services

Social services range from those that are at risk of being under-consumed (eg, drug and alcohol rehabilitation programmes) to those that might be over-consumed (eg, elective surgery). In each case, an important commissioning task is deciding who the service is for.

Having decided that, the next question is how to ensure that the service is targeted to those people. This usually involves establishing eligibility criteria and deciding who will assess people against those criteria.

A further question is how the service deals with changing client circumstances, which may necessitate reassessment. An appeals mechanism may be required should clients be likely to challenge eligibility decision.

There is a trade-off between simplicity of eligibility criteria and accurate targeting through more complex criteria. Similarly there may be a trade-off between national consistency in assessment, and assessments that are more responsive to the particular situation of individuals and their local environment.

These issues are present in all service models, though the specifics may vary. See Chapter 11 for a discussion about eligibility in the context of client-directed budgets.

Allocation of decision rights

Decision rights define who can change what, and with what authority. The *who* is important, because different participants face different incentives and have access to different information (Chapter 4). Chapter 5 discusses the importance of carefully allocating the responsibility for commissioning.

The allocation of decision rights should reflect the desired balance between national consistency and local adaptation, and permit experimentation without compromising service outcomes. This is a hard balance to get right; but even harder if it is not treated as an explicit design decision. When contracting out, one useful framework is *tight-loose-tight*:

> In our experience contracts that come closest to adopting a 'tight, loose, tight' high trust contracting framework gain the benefits of flexible service delivery and maintain government accountability. *Tight* in terms of specified resource, population and impact/outcomes; *Loose* in terms of how the provider is monitored to apply the model of care (assuming a foundation of evidence-based best practice), *Tight* in regards to evaluation and improvement. (Wise Group, sub. 41, p. 44)

Essentially, the commissioning organisation needs to decide the desired outcomes, the provider needs to decide the how of service delivery, and the provider needs to demonstrate their performance against those outcomes. This framework is applicable to most service models and is a good starting point for allocating decision rights.

Decision rights are closely linked to issues of funding. The requirements typically attached by funders constrain the decisions available to funding recipients. Chapter 5 and section 6.7 discuss funding issues.

Quality

Quality is inherently ambiguous and contested in many social services markets. In a conventional market, consumers judge quality, and trade it off against other service attributes (eg, price, convenience). In social services markets, different participants may apply differing criteria when judging quality – and so may make different trade-offs. For example, process integrity is an important aspect of quality from a government perspective, providers may be more concerned about the qualifications of the person delivering the service, and clients may care more about availability, friendliness and approachability.

Governments may be tempted to over-specify services to ensure quality on the dimensions they think important. However, this may unnecessarily reduce the flexibility of providers and dampen innovation.

For the contracting-out and managed market service models, the funder usually regulates quality and quality expectations are specified contractually. Quality regulation can be internal under in-house provision, but this risks conflicts of interest. Clients are the primary judge of quality in client-directed service models; however this may need supplementation with, for example, benchmarking that assists clients in making their choices.

The regulation of quality can be more complex under other service models. Peer review and supervision is an important feature of trust and shared-goals service models.

Some form of independent quality regulation is often used. Occupational regulation is typical for some professional services. For health, this is supplemented by the Health Quality & Safety Commission.

> The Health Quality & Safety Commission was established under the New Zealand Public Health & Disability Amendment Act 2010 "to ensure all New Zealanders receive the best health and disability care within our available resources". (HQSC, n.d.)

The Education Review Office (ERO) performs a similar function for schools.

Competition between providers on the basis of price runs the risk that providers skimp on quality (Appendix F). This is a concern if quality is the criterion used to choose a provider and that quality is hard to see. The best response to this risk will depend on the specifics of the service and service model. Responses could include:

- changing who makes the choice between providers (eg, allowing clients to choose their provider rather than a bureaucracy assigning them to one);
- collecting and publishing information on provider quality;
- fixing prices administratively, so that competition shifts to other observable service attributes;
- increasing peer monitoring; or
- licensing and regulation to set minimum quality standards.

Price

Many systems need to establish prices through administrative mechanisms. At least two prices matter – the price that clients pay and the price the funder pays to the provider. Setting prices – or determining who will set them and on what basis – is part of the commissioning process.

Client prices

Client prices are often set to zero to encourage uptake by those targeted. But this may be an insufficient incentive to get all of those in target groups to take part. So it may be necessary to subsidise some transaction costs, make the service compulsory or to bundle an activity with income support. Respective examples include:

- paying a client's transport costs to a health clinic;
- free, compulsory schooling; and
- obligations to seek work.

Client prices at zero can encourage over-consumption. So a rationing system and/or differential pricing may be needed for different groups of clients. That, in turn, requires the specification of eligibility criteria and to define who is in which group.

Price discovery

Regular markets determine prices through many interactions between buyers and sellers, each motivated by private interest. These interactions and incentives are limited in social services markets, so alternative means of determining an efficient price may be required.

In particular, contract markets with a dominant purchaser, mission-oriented suppliers and/or limited numbers of suppliers may not be very reliable for price discovery.[58] And generally speaking, governments face incentives to underpay providers.[59] So contract markets may need supplementing with other mechanisms to set prices. Section 6.7 explores this issue further.

Similar issues arise for other service models. The criteria for pricing levels are discussed in section 6.5. (Other contract payment issues are discussed in Chapter 12.)

Cream skimming, parking and lemon dropping

Clients have different characteristics. For example, in the case of employment services, some clients will find it easy to get a job, even without help. For others it may be near impossible, regardless of the level of support. *Cream skimming* (or *cherry picking*) refers to the behaviour of providers that actively recruit the clients on whom they can make a profit, or avoid those on whom they expect a loss. Competing providers who do not cream skim may end up with loss-making clients only, which can threaten provider viability:

> The Salvation Army cannot always compete with fully commercial private operators, particularly in the education, early childhood education centres and homecare sectors where local and overseas providers can afford to screen clients or students or deliver only the contracted clinical services. (Salvation Army, sub. 104, p. 8)

> Overly specific contracts linked to outcomes can also cause providers to 'cherry pick', i.e. choose to work with those clients who will achieve outcomes easily rather than those who have more challenges, and are arguably those most in need. (Inclusive NZ, sub. 32, p. 7)

[58] Specifically, both a dominant purchaser and mission-oriented suppliers tend to push prices below sustainable levels. Limited supplier numbers, supplier collusion or product differentiation may support higher prices (Appendix F).

[59] Ideally, these incentives would be balanced by a concern about the long-term sustainability of the provider market. However, contract cost savings are certain and immediate, while the costs of non-sustainability are longer term and less certain. The electoral cycle favours short-termism in government decision making (Chapter 4).

The same payment for each client creates the conditions for cream skimming.[60] For this reason, many managed markets and voucher systems vary the payment based on the client's characteristics. The employment services market in Australia is an example (Chapter 3).

Alternatively, statutory or administrative rules can be used to limit the ability of providers to select their clients. For example, in New Zealand both state and partnership schools, with additional places to offer, are subject to statutory rules designed to prevent them from cream skimming.[61]

Parking refers to the behaviour of providers who leave difficult clients "on their books", doing the minimum to continue receiving a service fee, but not enough to achieve the desired outcome for those clients. Payment schedules with relatively high service fees and relatively low success fees create the conditions that encourage parking:

> Incentive-based payments may be one way to achieve social outcomes specified in a [contract] but they are subject to many problems such as the "parking" of difficult clients and gaming and a focus on "numbers and outputs" rather than people and communities. (NZCTU, sub. 103, p. 11)

Youth Service is an example of a payment schedule that attempts to discourage parking (Chapter 3; Appendix B).

Lemon dropping or *risk shifting* refers to the behaviour of providers who try to get rid of "expensive" clients. Careful design of payment schedules is required to discourage this practice.

These behaviours are not eliminated simply by choosing particular types of providers. For example, submitters variously suggested that government agencies, clinicians, FPs and the larger NFPs cherry pick (or are likely to respond to incentives to do so).

Cream skimming, parking and lemon dropping are all symptoms of a mis-alignment between provider incentives and the apportionment of resources to clients that commissioning organisations wish to achieve. Commissioning organisations need to be clear about their objectives and the apportionments that follow. For example, is their objective that each client receive equal resources (equity of inputs), the same service (equity of outputs), have their condition raised to a common standard (equity of outcomes), be improved by a similar amount (equity of relative improvement) or receive a service according to return on investment (greatest improvement in social value for each unit of resource)?[62] What might appear to be "parking" or "cream skimming" of specific clients under one objective may be the desired behaviour under another objective.

Commissioning organisations need to carefully design client assessments and provider payment schemes to align the incentives that influence the behaviour of providers with their objectives.

Innovation

Different service models encourage or discourage innovation in different ways. It is important for commissioning organisations to understand the effects of choosing a particular service model. Innovation issues are discussed in Chapter 7.

Atypical populations

Some populations have characteristics that make them more expensive to service. One example is rural and remote areas with low population densities.[63] This increases the costs of providing social services to those populations, and limits the likelihood of multiple providers:

> Population density affects client choice (or lack thereof) of social service providers, and ultimately the accessible services. Population density was also seen to [affect] the ability to recruit and retain volunteers to provide the services, due to the high pressure on volunteers and can lead to competition

[60] More specifically, cream skimming might occur if the payments for some clients substantially exceed the costs of servicing those particular clients, and providers have some control over which clients they service.

[61] See Ministry of Education (2015b) for a description of these rules.

[62] Chapter 9 provides a further discussion of these equity objectives.

[63] Waimakariri District Council (sub. DR240) reported that these issues can also occur in peri-urban situations.

> between rural community groups to source the most capable volunteers. (Volunteering NZ, sub. 86, p. 13)

Almost all services face higher per-capita costs in rural areas. For example, it is a lot more expensive to provide telecommunications to rural and remote areas. It is normal to adjust policy to reflect these differences. For example, the companies that cooperate to provide the Rural Broadband Initiative (covering about 15% of the population) act more as competitors in the Ultra-Fast Broadband initiative (covering about 75% of the population).

Sometimes careful commissioning resolves this problem:

> ACC has used contracting processes to ensure that clients in smaller centres and rural areas have access to a choice of providers. For example, ACC's vocational rehabilitation contract requires providers to deliver services throughout one or more defined geographical areas. These areas are defined to ensure that a choice of service provider is available to all New Zealanders. For example, Northland is included within the same area as Auckland, which means that providers who apply to deliver services in Auckland must also do so in Northland. (ACC, sub. 30, pp. 6–7)

The challenge for commissioning organisations is to find the most efficient and effective way to service their target population. This may mean adopting more than one service model, or adapting the chosen model to suit different populations.

F6.10 Commissioning organisations may need to adopt different service models (or significantly adapt their adopted model) to cover urban and rural populations respectively. A differentiated response is likely more effective than a one-size-fits-all model.

Behavioural change campaigns

A high-level choice for government is between programmes that deliver social services directly to clients and influencing campaigns aimed at behaviour change – or indeed the appropriate mix of the two.

John Angus (sub. 109) made the point that it is families (and communities) that will ultimately solve social problems that arise within families, and that "the challenge for government is to find respectful ways to assist families to do this. The effectiveness of purchase of services by contract will play a very minor role in this" (p. 2). He identified two successful initiatives: *SKIP* (Strategies with Kids – Information for Parents) in child welfare and *It's not OK* in family violence.

Influencing campaigns can have significant economies of scale (eg, in the purchase of advertising space). So it makes sense to develop and deploy them at a national level where feasible.

Such campaigns are part of the set of choices available to commissioning organisations and are most likely complementary to service provision. The marketing profession is reasonably sophisticated at measuring its impacts, so establishing return on investment may be easier for influencing campaigns than for the corresponding social services.

6.6 Implementation

Many issues arise during the implementation phase of commissioning. These are to be expected, and treated as opportunities to learn, refine and improve the service.

Complaints and feedback

Feedback has three important purposes. First, it provides information that supports ongoing fine-tuning and service evaluations. Second, it can identify incidents of unsatisfactory service performance. Third, it can identify individuals who are poorly matched to a service, with the aim of redirecting them to a more suitable service.

> Direct feedback from complaints is also very helpful. The literature states that only 4% of people dissatisfied with a disability support service will actually make a complaint about it – so complaints

> provide vital information that the other 96% are unwilling or unable to provide for a host of very good reasons. (National Services Purchasing, sub. 111, p. 8)
>
> A very strong and clear message [from] service users … was that above all they needed to be treated with respect by service providers. (Kay Brereton, sub. 9, p. 1)

Empowerment is not only about engagement in individual or collective decision-making processes. It also includes mechanisms for making complaints and seeking reviews. Brereton contended:

> An important safeguard for people using the social services of statutory agencies is the statutory access for review and appeal rights as well as to watchdog agencies such as the Ombudsman. (sub. 9, p. 2)

Brereton further cautioned that if a service is contracted to a non-government provider, it is important to ensure that the contracting-out process does not create barriers to the review and appeal mechanisms available to clients.

The Office of the Auditor-General (OAG) recently described the benefits of well-functioning appeal and complaints systems:

> Public entities that welcome complaints signal to citizens that someone is listening to them and that they can influence public services. For the entities, complaints are a free source of advice. Complaints can provide valuable insight into poor service, systemic errors, or problems with specific processes. Complaints also give public entities an opportunity to understand the motives, feelings, and expectations of the people using their services. (OAG, 2014b, p. 4)

The Commission agrees that good consultation and complaints mechanisms are part of a well-functioning learning system (Chapter 7) and signal the commitment of an organisation to empower its clients. Feedback systems help clients to feel engaged, and help ensure that the systems intended to support them actually do so.

Organisations should be open to feedback and other sources of ideas and knowledge that can stimulate innovation.

F6.11 Complaints mechanisms are part of a well-functioning learning system. They signal the commitment of an organisation to empower its clients.

6.7 Service stewardship

Service stewardship is an overarching responsibility for the monitoring, planning and management of resources in such a way as to maintain and improve service performance.[64] Relevant activities include performance monitoring, identifying barriers to and opportunities for beneficial change, and leading such change.

Stewarding the provider market

The social services system requires healthy, capable and sustainable providers. Government is the major funder and purchaser of social services. Its commissioning and purchasing decisions will substantially determine provider quality. Chapter 4 identifies some problems with the depth, quality and sustainability of suppliers and potential suppliers. These have arisen from a lack of provider market stewardship.

F6.12 Government is the major funder and purchaser of social services. Its commissioning and purchasing decisions substantially determine the depth, quality and sustainability of providers and potential providers.

[64] Service stewardship is distinct from the related idea of *system stewardship* (see Chapter 5).

Provider development

The seven service models all make implicit assumptions about the availability and competence of people and organisations. Limited availability and limited competence will restrict the choice of service model.

Only one feasible provider

If a service can only be feasibly provided by one supplier, then this will rule out many service models. If that supplier is within a government agency, then in-house provision is indicated (section 6.9).

If the only feasible provider is external, then some of the assumptions underlying contracting out are not met. Tendering processes might be largely a waste of everyone's time. Partnership contracting with negotiated goals is a better approach. Many of the relevant considerations are similar to those for in-house provision.

No available provider

Many of the service models presented in section 6.4 assume the existence of competent providers (actual or potential). But this is not always the case. The commissioning organisation may be faced with the challenge of finding or creating a functioning provider. Possibilities include:

- build in-house provision;
- help develop an existing provider; or
- help create a new provider.

In-house provision will not meet the needs of all target groups. Where it will not, the service commissioner needs to find candidate providers with potential, engage with them, and help them to develop. This process may be lengthy, and can be usefully framed as a partnership. Semi-formal agreements, such as a memorandum of understanding, may be a useful early step towards clarifying expectations. Untied grants, training or infrastructure support can help build capability in the candidates.

There are "pockets" within New Zealand where the Government's obligations to its citizens are difficult to meet. Commissioning organisations need to find a party that can provide leadership, infrastructure and connection with that community. Ideally such a party can support a productive, sophisticated relationship with the commissioning organisation, and to act as a channel to involve the clients in service co-design and production, and release a positive, bottom-up dynamic.

Working in partnership

This sounds simple but is not. A former senior public servant described such a process:

> To be effective there needs to be high levels of trust and shared views and understandings of the outcomes being sought. Building the necessary relationships can be intense… [S]enior people who can drive the required changes [are] needed within their organisations to make such arrangements. In the schooling improvement work we did in South Auckland we deliberately did not run the project out of our Auckland regional office … – in part because we were looking for innovation and in part we wanted to avoid old top down type controls being reapplied.
>
> We needed time to make clear with communities and schools teachers that the work was not about more money but how we used resources more effectively. This took time – months that ran into several years in some cases. We needed to be upfront that the Ministry was part of the problem and we needed to find new and more effective ways of working with those schools and communities. For example, our work with Ngati Porou started with the presumption that we all needed to find much more effective ways of utilising the $5m spent on East Coast schools, the 20 properties and the 100 teachers. Our agreed starting point was a blank sheet of paper, a pencil and an agreement to work within existing funding. The work was anchored off a vision of what success meant for Ngati Porou. (Howard Fancy, pers. comm., 7 July 2015)

Developing partnerships between commissioning organisations and local providers and communities takes time and the ongoing commitment of resources. But partnerships will be difficult to sustain if they require the continuing involvement of senior officials.

Provider diversity

Government is the dominant provider and purchaser of social services. This carries with it the usual risks of a monopoly, in particular costly production and low levels of innovation. Diversity and contestability of supply can help address these risks (Sturgess, 2012).

Provider diversity has many aspects. Two important dimensions are organisational form and provider size. Inquiry participants had strong, and opposing, views on the desirability of large versus small providers, and FP forms versus NFP forms (see Box 4.3 in Chapter 4).

The Commission does not support a bias towards particular provider types. Social services and the environment within which they are delivered are sufficiently diverse that no basis exists to rule out particular forms or sizes of providers.

It is appropriate for commissioning organisations to take account of provider specialisation, and economies of scope and scale where they exist; and at times these factors will favour particular types of providers.

R6.3 When commissioning services, government agencies should be open-minded about the size or organisational form of current and potential providers of social services. Preconceptions about provider size or form risk keeping out new entrants and reducing innovation.

How many providers?

Service commissioners are likely to come to a view on the ideal number of suppliers in a social services market. Where this is substantially different from the actual number, and that divergence is problematic, it may be reasonable for commissioning organisations to "intervene", in the form of encouraging consolidation of small suppliers or encouraging new entrants. Such intervention should be well-justified and transparent.

Tension exists between efficient provider scale and provider diversity. For example, the Blind Foundation pointed out that

> [as] a national organisation we work directly with few government purchasers who centrally manage contracts. It would significantly increase our overhead costs if we had to negotiate individual agreements at a regional level, if for instance DHBs were given responsibility for the local purchase of sensory disability services … Fragmenting provision to very local levels and the use of intermediary agencies for managing payments such as those used for individualised and enhanced individualised funding will generally mean additional administrative overhead that could create significant financial and reputational risk for government. Managing those risks will add cost to the overall social service programme. (sub. 16, pp. 15 and 20)

Alzheimers New Zealand warned that diverse approaches can impose costs. It pointed out that the strategy, purchasing and administrative arrangements of the current health-based contracting arrangements are

> replicated 20 times (through each District Health Board (DHB)) and nationally across the various public service departments. And with those fragmented arrangements comes risks (and actual) unplanned inconsistencies in approach that negatively impact the consistency and quality of services that people affected by dementia are able to access … Some efforts are underway to address some of these issues. To date though, new arrangements have been limited in number and scope. (sub. 27, p. 6)

A diversity of contracts does not necessarily create extra value.

Other inquiry participants submitted strongly in favour of small providers (see Box 4.3 in Chapter 4).

But small niche providers may be unviable should they be too small to generate the performance information needed to:

- run themselves effectively;
- be part of a wider information architecture that identifies good performance; and

- be an effective part of a learning system.[65]

Alternatively, small niche providers may be unviable if their financial reserves are insufficient to survive revenue shocks, or their overheads are too high relative to their size.

Efficient adaptation to local preferences does not necessarily mean a plethora of tiny local provider organisations. For example, the Blind Foundation (sub. 16) described a model that balances the costs and benefits of local adaptation against national consistency and infrastructure.

Smaller NFPs may not wish to become larger, because size may threaten their mission, connection to known clients, or other characteristics they consider important (Box 6.8).

Box 6.8 **Getting larger has trade-offs for NFPs**

NFPs are typically strongly mission-oriented (Appendix F). A mission has natural diseconomies of scale – a mission must become more generic as organisational scope grows.

An organisation with a widening mission scope may no longer be able to attract (or necessarily want) staff with very narrow mission orientation. That may mean paying higher salaries. And as an organisation grows, more generic management skills are required.

So it might be expected that the organisation, its management style, its staff and salaries converge closer to that of an equivalent FP provider. None of these changes may be attractive to the organisation's pre-expansion staff and stakeholders.

NFPs also find it hard to increase their size through mergers:

> The [not-for-profit] sector has no mechanism for easily negotiating mergers or takeovers in the way that the commercial sector does. There are no shareholders, bankers, venture capitalists, or mentors brokering collaboration initiatives, and there are few if any measures with which an organisation can benchmark itself to other agencies. (Methodist Mission, sub. 4, p. 6)

NFPs that merge also face difficulties in negotiating a new mission acceptable to all merging parties. Even with these difficulties, some mergers do occur. For example, Green Cross's recent acquisition of Access HomeHealth was motivated in part by Green Cross's objective of providing more integrated healthcare (Green Cross Health, 2014). Richmond Services NZ Ltd, a mental health services provider, and Recovery Solutions, a provider of addiction and social-housing services, have announced they are merging on 1 July 2015 to form an NGO that provides mental health, addiction, disability and social-housing services across New Zealand.

An efficient provider market is one that avoids monopoly, has providers operating at efficient scale, encourages investment and permits entry by innovative or more efficient providers.

Careful market design can avoid the problems of monopoly provision.[66] Other criteria can be difficult to achieve. Generally speaking, providers will know more about their costs and efficiency than will commissioning organisations. So it makes sense to give providers room to become larger or smaller.

Subcontracting

Presbyterian Support New Zealand described how social services can be successfully delivered through subcontracting relationships:

> Presbyterian Support East Coast is contracted by MSD to provide family violence prevention through its Family Works service. Whakamana Whānau is a joint response with a Māori provider to family violence prevention. With Presbyterian Support as the fund holder Te Ikaroa Rangitahi delivers services in a

[65] Niche providers are likely organised around one or more of: (i) technical specialisation; (ii) reaching a (potentially geographically dispersed) client group with a common identity; (iii) a particular location; (iv) a narrow (operational) mission; or (v) a narrow (philosophical) mission.

[66] The Commerce Act 1985 also limits the creation of monopolies (through mergers and acquisitions) and the exercise of market power by dominant suppliers.

> kaupapa Māori framework to the same contract as Family [Works]. Family Works is responsible for monitoring and ensuring timely reporting for both services.
>
> The Family Works part of this service has recently been evaluated with excellent outcomes. The next stage is to engage a Māori researcher to evaluate the Te Ikaroa Rangitahi service model.
>
> This style of funding ensures MSD has oversight by organisations with depth of experience, credibility and admin/management infrastructure to support outcomes achievement. (sub. 76, p. 6)

The Home and Community Health Association presented a contrary view:

> In our sector there has been considerable sub-contracting going on following the 2012 ACC service review. We have not seen any evidence that it has made any measurable difference in terms of better outcomes.
>
> We would be very concerned if the commissioning of home support for older people was devolved from District Health Boards to non-governmental organisations for the larger population based contracts. The examples from the ACC service review would apply to any other devolved commissioning:
>
> a) Providers working under sub-contracts have found that they have lost incentive to innovate because the administrative rate that is taken off the contract rate by the commissioning agency is what used to be their profit.
>
> b) Providers working under sub-contracts lose their ability to put in place their own quality measures and sometimes feel compromised by the ethics and quality of the commissioning agency.
>
> c) Providers working under sub-contracts lose their direct connection with the government agency. (sub. 114, p. 13)

Providers may feel that a direct relationship with government offers them more mana. And there is no question that the standing of a provider within its target community can matter for effective service delivery. But, ultimately, provider mana should not receive priority over achieving more effective social services.

Contracts for social services are relationship-intensive, reflecting difficulties in service specification and monitoring:

> The relationship between the Government contract manager and their understanding of the work of the organisation is imperative in specifying, measuring and managing the performance of services where outcomes are not easy to observe or attribute. Previously contracts managers were based in the regions but increasingly are based in Auckland, Wellington or Christchurch and may lack an understanding of the local environment. We also tend to see less of the contracts managers which is unfortunate as this provided a platform from which to build trust, identify areas of non-performance and share stories of success. (Community Care Trust, sub. 96, p. 3)

And the provision of social services can be very fragmented:

> The culture and leadership of the domestic violence, child abuse and sexual violence sectors is confusing and fragmented. There are multiple agencies working at multiple layers:
>
> - There are over 200 – largely disconnected leadership, governance and multi-agency groups, networks and coordinators trying to address the problem nationally and regionally.
> - According to MSD's Family and Community Services website they contract with 774 different providers for 'family violence' services. In addition, family violence services are contracted via Ministry of Justice (eg stopping violence programmes), and other government agencies. (The Impact Collective, sub. 130, p. 14)

Government agencies cannot efficiently manage hundreds or thousands of contractual relationships. The Commission heard evidence that some of these relationships are in poor shape, reflecting in part the sheer number of relationships.

Provider subcontracting can be an efficient way to reduce the number of relationships managed by government agencies. *Lead providers* – those with a direct relationship with government and their subcontractors – can devote more resources to individual relationships.

This idea is used in the UK welfare-to-work sector. It involves lead providers managing government's supply chain of small private providers, public sector agencies and NFPs.

Smaller providers may fear the consequences from replacing a single government purchaser with a single non-government purchaser. The underlying problems – those associated with a single purchaser – remain in both cases, and are best dealt with by changing the service model. The bargaining power of small providers will be increased should they have the option of supplying multiple purchasers.

F6.13 Contracts for social services are relationship-intensive, reflecting difficulties in service specification and monitoring.

R6.4 In some instances government agencies have tens or hundreds of contracts with providers for similar services. In such instances, agencies should consider engaging one or more lead providers to manage government's supply chain of smaller non-government providers.

A healthy provider ecosystem

Barnardos (sub. 12) suggested that the provision of social services can be viewed as an ecosystem, with three roles for providers:

- delivering services under contract to government;
- designing and implementing their own services and supports for clients and their families; and
- social enterprise.

Providers can choose one or more of these roles:

> The ecosystem model that we are articulating does not require organisations (or even service types) to fit neatly in one part of the system or the other. Rather it requires: explicit recognition of the role and objectives of each different part of the system, conscious choice about when to use which part, and some oversight to keep all parts in balance and to allow movement and learning between all three parts. (Barnardos, sub. 12, p. 12)

Some submitters considered a fourth role to be important – political advocacy:

> Community and voluntary groups argue that it is time to listen to their voice more and to ensure that the conditions exist that allow for engagement in public debate. (NZCTU, sub. 103, p. 14)
>
> The key role of community services providers is to be responsive to the needs of the most disadvantaged and inform government of the issues and gaps to ensure that resources and services are directed where they are most needed in an effort to reduce inequality and increase the health and welfare of citizens. (Auckland North Community & Development, sub. 22, p. 4)

Sturgess (2012) made a strong case for encouraging a diversity of service providers:

> [U]ntil recently, policymakers have not been particularly concerned with increasing the diversity of the supply side. Diversity serves a number of functions:
>
> a) *Choice*. Diversity increases the effective choice available to the beneficiaries of public services, at the individual and the collective level.
>
> b) *Adaptability*. The public service economy is better able to adapt to changing circumstances when there is greater institutional diversity. It gives us a deeper 'gene pool' from which to fashion new institutional forms for an uncertain future.
>
> c) *Innovation*. Different kinds of service providers with different backgrounds bring different perspectives to the challenge of delivering better and more cost-effective public services. Diversity allows for experimentation and problem-solving in parallel rather than in serial (trying one solution and only after it has been tested, trying another). (p. 8)

Like natural ecosystems, the social services system is better served by having diversity in service providers. It should be up to providers to decide the roles they wish to undertake in such a system. Organisations that span multiple roles may face trade-offs. Such organisations are best placed to deal with those trade-offs.

Funding

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

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

Government faces incentives to underfund contracts with non-government providers for the delivery of social services. Long-term underfunding has undesirable consequences. Payments for services where the Government controls service goals should be set at a level that allows an efficient provider to make sustainable return on resources deployed, encouraging investment by existing providers and entry of new providers.

Pricing principles

The question of price is central to contracting out, but also arises under other service models. Governments also set the prices paid for services under managed markets and client-directed service models.[67]

Government has the ability to under-price contracts with providers

Submitters to this inquiry claim that government is trying to deliver social services "on the cheap" by squeezing providers very tightly on pricing. For example:

> NGOs are … on the coal face and are not given anywhere enough funding. (Social Service Providers Aotearoa, sub. 129, p. 8)
>
> …these government-driven services are not fully funded by government. Instead the costs of government-driven services are being subsidised by NGOs as NGOs use their infrastructure and fundraised money to cover the costs of delivering on government contracts. (Barnardos, sub. 12, p. 11)
>
> [I]t does need to be stated that most Community and Voluntary organisations who contract with Government have not received funding increases (even CPI) for up to 10 years. This means that most social service organisations are actually delivering services on much less money than 10 years ago, with an increase in clientele and having gone through the global economic crisis. (Community Networks Aotearoa, sub. 31, p. 6)
>
> The community sector often finds that they are in the position of having to accept a price rather than negotiating one. Some DHB funders have not changed the contract price for the same service over the past five years despite the growing complexity in client needs and the increase in costs to deliver those services. (Platform Trust, sub. 45, p. 6)
>
> The funder has most of the bargaining power – largely a take it or leave it negotiation strategy which is often used to play one provider off against another. This is enabled because the [Ministry of Health (MoH)] is a large funder purchasing a sizeable portion of the sector's output. In a virtual monopoly there is little room to negotiate. The latest [Autism Spectrum Disorder] addition to the contract without consultation is a prime example of the attitude of a monopoly funder and their dismissal of our response consistent with their previous responses. The cost to the Ministry of switching to another provider is relatively low, and in any event they are government funded and can absorb the cost. A large range of similar providers also provides a cushion for the MoH to deal with a single provider who won't cooperate. We also know that a lack of cooperation can see funding or relationship penalties. There is little one can do in the face of this bargaining power except to provide a range of products, services, skills that other providers cannot emulate thus making it difficult for the funder to accept a lesser service, or a more risky one for them. (Spectrum Care Trust Board, sub. 90, p. 7) [original emphasis]

While some might be tempted to see this as simple self-interest on the behalf of providers, other commentators have noted this problem:

> In respect of levels of funding from government, it is my view that over the past decade successive governments have screwed down NFPs in the social services sector (or certainly the parts of it I am familiar with), putting at risk their sustainability. (John Angus, sub. 109, p. 6)

[67] Governments implement financial control through budgets for the in-house provision, trust, shared goals and client-directed budget service models.

One reason for the lack of inflation adjustments in recent years may be government financial constraints following the effects of the global financial crisis on New Zealand. However, the Commission heard that under-pricing is a long-standing system feature, with its genesis in a policy of "contributory funding" (Box 6.9).

Box 6.9 **A history of "contributory funding"**

Contributory funding – where government agencies intentionally provide part, but not all of the funding for a service – is a lasting and contentious issue for social services providers. Arising from the practice of government providing grants to charitable organisations, the "contributory funding" model was developed alongside a move to contracting for outputs in the 1990s:

> Most funding is **a contribution** to the total costs of the service. This practice reflects the history of government assistance to community based social and welfare service in New Zealand although, in order to maintain its contributory nature, the contract specifies that the full quantum of service must be delivered by the provider. (DSW, 1997a, p. 2) [original emphasis]

Part of the logic of contributory funding was that it would stimulate local community activity for delivering social services that they deemed desirable:

> What makes the [Department of Social Welfare] relationship with community providers particularly interesting is the contribution model. This model aims to stimulate voluntary community activity through part funding. It has been suggested that the implementation of this model plays a key role in building strong cohesive communities (in other words the model produces an output of greater value than the simple input – both in terms of quantity of output and external factors). (DSW, 1997b, p. 3)

The Community Funding Agency (CFA) had a budget for purchasing national services on the behalf of the agencies that now make up MSD, and a separate budget for funding community organisations.[68] The CFA allocated funds in that separate budget on a population basis to eight areas across the country. They used a contributory approach to allocations from each area budget. CFA provided funding to increase the scale or volume of work done by community organisations where more output was desirable, but local resources could not support it.

This explicit community support function was lost after the CFA was disestablished in 1999. Service purchase became the dominant approach. Submitters to this inquiry expressed very strong views on the negative consequences of contributory funding within a service purchase approach.

Ministers may be reluctant to spend more especially when they are unsure about how effectively spending is being applied.[69] This reluctance might be best dealt with through improving performance measurement, and increasing knowledge of service costs and impacts, and the learning capacity of the system (Chapters 7 and 8).

The claims of providers are consistent with government exploiting its position as the sole purchaser of many social services (Chapter 2). However, that does not mean that the correct response is to pay contractors based on their current costs. Such payment arrangements have their own problems, including dis-incentivising efficiency and innovation (Appendix F).

What is needed is a system where government is explicit about its goals and applies funding principles that match those goals.

[68] The CFA was a branch of the Department of Social Welfare, established in 1992 at "arm's length from the New Zealand Children and Young People's Service" (Garlick, 2012, p. 155).

[69] Contributory funding can provide some assurance of effectiveness; as it can be presumed that a local provider or community would not want to put their own resources into an ineffective scheme.

F6.14

Government faces incentives to under-price contracts with non-government providers for the delivery of social services, with probable adverse consequences for long-term service provision. These incentives are consistent with reports from many providers saying their service contract prices are too low. However, those reports are not definitive without clear criteria to determine a "correct" level of funding. This points to a need to be explicit about the basis of funding, the appropriate evaluation criteria, and the pricing processes applied by government.

Be explicit about full funding, contributory funding, grants or no funding

The Commission agrees with Barnardos' that:

> There are very unclear roles, responsibilities and accountabilities within this current system. The unconscious actions of both NGOs and government have contributed to this situation. To rebalance the system there needs to be real clarity about when and how the NGO sector is expected to act separately and independently from government, and when it is operating as a fully funded agent of government. (Barnardos, sub. 12, p. 11)

Government may reasonably choose the type of funding to match its objectives. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the expected consequences of its funding decisions.

The distinctions between funding types and the basis of the corresponding relationships between government and the funded party are summarised in Table 6.3.

Table 6.3 Funding types and basis of the government–provider relationship

Funding type	Basis of relationship
Full funding	Government pays non-government providers to deliver the Government's goals or commitments. Payments should aim to cover the economic cost of service delivery. Payment structures should be carefully designed to create the correct incentives for service improvement over time. It is reasonable for government to fully specify the service delivery details (though a less-restrictive specification – eg, outcomes – may be more efficient).
Contributory funding	Allows government to subsidise activities that others specify and lead. Reasonable for government to require accountability for funds spent.
Tied grants	Allows government to subsidise organisations for specific purposes aligned with government goals. Reasonable for government to require accountability for funds spent.
Untied grants	Allows government to subsidise organisations to meet those organisations' goals.
No funding	A legitimate decision for government.

R6.5

Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decision. Legitimate types include full funding, contributory funding, tied and untied grants, and no funding.

Full funding

Full – or sustainable – funding is appropriate when government agencies pay non-government organisations to deliver the Government's goals or commitments. This is the appropriate funding arrangement when government wants full control over the service specification (though a less-restrictive specification may be more appropriate, eg, contracting for outcomes).

F6.15 Full funding is appropriate when governments are paying non-government organisations to deliver the Government's goals or commitments, and want full control over the service specification.

Payments should aim to cover the economic cost of service delivery:

> If providers are to participate with confidence in a marketplace of services then it needs to be on the basis of pricing and funding that enables sustainability. (New Zealand Disability Support Network, sub. DR163, p. 2)

According to Barnardos (sub. 12), sustainable funding means that:

- services are fully funded;
- funding recognises the costs of infrastructure (eg, training, business re-organisation and IT systems) required to support services; and
- there is no expectation that non-government providers will subsidise the costs of service delivery that the Government procures to meet government objectives.

A sustainable return on resources deployed

"The economic cost of service delivery" is not the same thing as paying at the level of costs currently incurred by existing providers. That arrangement would mean higher rewards for less efficient providers. Payment levels and structures should be designed so that "there are incentives to reduce overhead costs and to provide quality infrastructure in efficient and effective ways" (Barnardos, sub. 12, p. 19).

R6.6 "Fully funded" social services payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

The Treasury should develop guidance on how commissioning agencies should assess prices against this criterion.

By "sustainable return on resources deployed" the Commission means a "normal profit", as explained in Box 6.10.

Box 6.10 **Economic, accounting, normal and super-normal profits**

Discussion of the term "profit" is complicated by the many different uses of the term. It is useful to distinguish between four different uses.

- *Economic profit* is the difference between revenue and costs, where all inputs (including capital) are valued at their opportunity cost (ie, what they could earn in their next most valued use).
- *Accounting profit* is the difference between revenue and cost as measured by the applicable accounting standards. It is typically larger than economic profit, as it (implicitly) assumes that equity capital is costless.[70]
- A *normal profit* is an economic profit of zero. This is the expected average long-run economic profit of firms in a competitive market.

[70] Another source of difference is that asset values in accounting do not, in general, reflect opportunity costs.

- A *super-normal profit* is a long-run positive economic profit, generally based on holding exclusive rights to a valuable resource.[71]

Discussions about profit are further complicated by the common term *not-for-profit*. The term is a poor description of the organisational form.[72] NFPs are in no way constrained from making profits. The constraint they face is that they cannot distribute profits to shareholders (as can an investor-owned firm) or to members (as can a cooperative). This means that NFPs must retain or spend all their profits.

All organisations, whether FP or NFP, need to make a zero or positive economic profit over the long term to be sustainable. And, indeed, it is the opportunity to make economic profits that attracts new entrants to a market and spurs innovation.

Zero or negative accounting profits imply negative economic profits, and therefore unsustainable organisations. Social services providers should seek – and indeed welcome – positive accounting profits.[73] Further, they should be wary if they are in a situation of having positive accounting profits but negative economic profits, as this may indicate a rundown of assets and long-term unsustainability.

The issues about "profits" by some inquiry participants might arise more from a concern about super-normal profits than about accounting profits:

> We have been alarmed by the increasing trend towards private for-profit providers entering the social services arena for the very reason the title for-profit suggests. (Community Care Trust, sub. 96, p. 5)

> We are concerned that this review is in reality another step towards creating opportunities for making profit from vulnerable people, rather than actually addressing the under lying causes of the problems being faced by individuals/families/whānau and communities. (Homebuilders Family Services North Rodney, sub. 38, p. 1)

Super-normal profits might arise in social services if monopoly rights are created by government, if providers act as a cartel or if service prices are set too high. If the super-normal profits were being earned by NFPs whose mission was aligned with the Government, then that might be of lesser concern than if a FP was earning the same super-normal profits. However, it would still be a concern, as it may imply an inefficient use of government funds.[74] A better arrangement would avoid the situation that created the super-normal profits.

Where independent factors, such as atypical population characteristics, mean that any provider would face higher costs, then prices should reflect those higher costs. This is implicit in the "normal profit" criterion that underlies the Commission's recommendation.

Implications for providers

The flip side of government being explicit is providers being more explicit about their own mission and their motives in pursuing government funding. Providers capable and confident of delivering services in the way and to the standard specified by government should welcome fully funded contracts. Those who wish to pursue goals not necessarily aligned with those of government should not expect full funding. This may entail providers making hard choices.

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[71] Super-normal profits can be earned in the short term as a result of innovation. In the long term, they generally rely on market power arising from protection from competition; for example, through a monopoly right granted by government.

[72] Despite this problem, this report uses NFP in the absence of a more descriptive term that is widely understood.

[73] Most organisations undertake multiple activities, each with revenue and costs. Their profits, and therefore their sustainability, are dependent on the net effect of profits and losses across those activities. An organisation can reasonably choose to make a loss on an activity (eg, a service contract) if it can make that loss up through profits on other activities.

[74] Essentially the super-normal profit is a grant to the NFP provider in this situation. The government may have alternative uses for those funds with higher social returns.

Full funding, properly implemented, should allow sustainable provision by either FPs or NFPs, or both.

> It is important to note that while the vast majority of the providers that compete in our sector are "not for profit" their provider arms often seek to generate a profit to support the activities of their parent organisation. Just because a provider's mission is not to make a profit doesn't mean they are willing to make a loss and in fact most would expect a margin for sustainability and reinvestment in their business. Therefore, there is not a significant gap between what is sustainable for us as a for-profit provider and what most not-for-profit providers would consider sustainable and reasonable funding. (Healthcare of New Zealand Holdings, sub. 51, p. 4)

As organisational forms, NFPs and FPs have different relative strengths and weaknesses. Theory would predict a predominance of FPs in markets with high capital requirements; and a predominance of NFPs in markets where service quality is difficult to specify and observe.[75]

Implications for funders

The obvious implication of the Commission's funding recommendation is that costs will rise for funders, and in particular government. But an effect of artificially low funding is the running down of provider infrastructure and human capital. Provider organisations with high staff turnover are unlikely to be retaining or building human capital:

> A test of whether staff wages/salaries are high enough is the ability of organisation to recruit and retain an efficient workforce. Non-volunteer workers usually want to be paid at least enough to cover their opportunity cost. While "mission orientation" and contribution to society may partially compensate for a lower rate of pay, the effect is limited, particularly in the disability sector where high turnover is a major concern. Yet a stable workforce is fundamental to promoting quality of service delivery. (CCS Disability Action, sub. DR188, p. 20)

Run-down infrastructure and human capital is not a good basis for effectiveness. Services that are more effective for their target populations should reduce the overall demand for social services, acting to reduce the funder's costs over time.[76]

The findings in this report suggest far better outcomes are possible from existing resources. So the challenge is about using resources more effectively and switching resources from low-yielding to high-yielding providers and programmes.

F6.16 Properly implemented, the cost implications for government of the inquiry's recommendations should be neutral or positive over time. Any timing and front-end cost questions should be handled within an investment framework.

Cost models

Prices in contract markets are set via a tendering process. In managed markets and voucher systems they are set administratively. And irrespective of the service model, funders and providers may have different views on whether prices are at the correct level. Commissioning organisations need to understand the costs that providers face in supplying services. The involvement and cooperation of current providers is essential in developing that understanding (Community Networks Wellington, sub. DR159, p. 2).

The costs of delivering social services include direct labour costs; a share of overheads such as staff training; the annualised cost of capital used in the service; the cost of taking on and managing risk; the costs of activity-related monitoring; the costs of reaching required standards; and a share of the costs of achieving other regulatory requirements. Commissioning organisations need to understand these costs even when there is competitive tendering, to be satisfied that services can be delivered as envisaged (APC, 2010). Excluding any of these sources of cost from service pricing may make provision unsustainable.

Government agencies have developed some service costing tools. MSD developed a service costing analysis tool in an Excel spreadsheet. That tool takes into account both direct costs, and indirect overhead and

[75] In the latter case, the strong mission orientation of an NFP provider can alleviate concerns the funder might have about quality shading (Appendix F).

[76] Better services will act to reduce overall demand only once any latent demand is met.

operational costs. (MSD, 2008). However, this tool is not readily available on MSD's website and the Commission understands that it is no longer used. Work and Income developed a costing tool in 2012 when they tendered for Youth Service contracts. The tool was provided to potential bidders as part of the request for proposal process. Its purpose was to introduce the outcomes-based payment framework, which was new for many providers, to help them model outcome assumptions and the impact on their income under contract.

The Commission is not aware of any general guidelines about how to approach the costing of social services. The OAG has published guidelines for charging fees for public sector goods and services, but they do not apply to contractual payments (OAG, 2008). The Treasury guidelines for setting charges in the public sector apply only for services for which the Government is the monopoly supplier (New Zealand Treasury, 2002). They do not seem to apply to the provision of services by non-government providers in contestable or competitive situations.

R6.7 Agencies commissioning social services need to be prepared to understand the costs that providers face in supplying services. They should invest in the skills, tools and research necessary to develop costing models. The Treasury should develop cross-government guidance on social services costing models.

Pricing disputes

> It is almost impossible for NGOs to challenge funders about price or the significant and unfair differential between DHB funding and NGO funding. (Platform Trust, sub. 45, p. 7)

This raises the question of how best to resolve disputes about pricing. Independent arbitrators and regulators are used in other contexts. In its draft report, the Commission asked inquiry participants about an appropriate dispute resolution mechanism for social services pricing issues. Auckland District Council of Social Services was in favour of an independent regulator:

> Yes there should be an independent body to resolve disputes. It should be a regulator rather than an arbitrator. This is because a regulator will independently develop, consult on and apply consistent principles and guidelines. They can also use their practical experiences of effective and appropriate funding to develop and change policies over time to meet emerging needs and developing innovation and best practice. (sub. DR141, p. 8)

The surveyed members of Social Service Providers Aotearoa also favoured an independent body:

> Most respondents felt there should be an independent body to resolve funding disputes, but there was no agreement about whether this should be an arbitrator or regulator for lack of a model. There were suggestions that the body should have the authority to set rules, but be flexible enough to mediate fairly and regulate both funders and providers. (sub. DR235, p. 6)

Hui E! saw a wider role for such a body:

> [T]here should be a complaints and disputes mechanism, but this should not be limited to services where government purports to be aiming at full funding. Once better guidelines are in place as suggested elsewhere in the report, the mechanism should also be able to address other instances of arbitrary decision-making and inadequate 'consultations'. (sub. DR213, p. 7)

Presbyterian Support advocated a more collaborative approach:

> There is much known in the NFP sector about the cost of services delivered, the likely mix [of] services required to deliver outcomes to clients who present with a range of needs – also the results for clients who have received services. Large NFPs are often good managers of resources – they have been working with underfunded services for years and have to make hard choices about what core services to continue funding each year.
>
> What is needed, is a trusting and collaborative approach between funders and NFPs to develop consistent ways of costing services, and flexibility to test this out and revise as necessary. An independent group could be formed to establish a pricing mechanism. This could draw on existing formulae used by purchasers and agencies. (sub. DR186, p. 5)

The Commission considered three options:

- A mediator, who assists the parties to negotiate a settlement.
- An arbitrator, who attempts mediation. But if that failed they would impose a final and binding decision.
- A regulator, who investigates the facts and comes to an independent conclusion, binding on the parties.

Of these three, an arbitrator offers the best balance between cost, timeliness and certainty.

R6.8 The Government should appoint an arbitrator for disputes over pricing in social services contracts that are not resolved through direct negotiations. Using the Treasury guidance on pricing, the arbitrator should attempt mediation, and impose a final and binding decision should mediation fail.

Contributory funding

Contributory funding allows government to subsidise activities that others specify and lead, or are jointly specified:

> It is not the role of government to fund all of our activities or to support all of our priorities. However, we do want a system that enables us to have enough space to self-fund activities and ways of working that we value. (Barnardos, sub. 12, p. 7)

Generally speaking, payment should be a negotiated, fixed contribution or a fixed proportion of what would be payable under a full funding arrangement.

In a contributory funding model, it is reasonable for government to require accountability for funds spent, though not for outcomes achieved. "Accountability for funds spent" in this context means that the funds were applied towards the specified activity.

Grants

Grants have low transaction costs and may be more efficient than contracts for some purposes. This is particularly the case where relatively small amounts of money are involved.

Tied grants allow government to subsidise organisations for specific purposes. It is reasonable for government to require accountability; that is, that the funds were spent on goods or services that contributed to the specified purpose.

Untied grants allow government to subsidise organisations to meet their own goals. Government also indirectly supports charities (many of whom provide social services) by providing donors with tax credits. In 2010, donor tax credits amounted to $195 million. Approximately $45 million of this was for donations to charities providing social services (Chapter 2).

Community development

The New Zealand Council of Christian Social Services (NZCCSS) argued that contract funding of NFPs for specific social services creates positive spillover effects for the communities in which these NFPs operate:

> Government funding of social services assists in the development of strong, capable, community based organisations. These organisations are critical to the wellbeing of their communities. Any government procurement of social services … should consider the whole contribution of the social services organisations to their communities – it should not just separate out a social services outcome as a commodity to be purchased in a transaction. (sub. 35, p. 10)

The NZCCSS further argued that these spillovers are sufficient to justify the continuation of funding for existing NFPs and a strong contracting bias against FPs.

Other submitters questioned whether contract payments for services are an effective or appropriate mechanism for supporting community development:

> In the disability community we often see initiatives developed under the guise of community development where the community has little control over the initiatives and the officials set the agenda from afar. This means the Ministries agenda is met, but not necessarily the community or disabled people involved. (Workbridge, sub. 102, p. 10)

> …government needs to take a broad investment approach to communities and community development, and not confine itself to a narrowly defined contracting approach. (Waves Trust & Community Waitakere, sub. 83, p. 6)

The Methodist Mission did not think it reasonable to equate community organisations (that provide social services) with the community they service:

> We are not our clients, we do not gather their voice, we frequently do not even gather their feedback on our services. The equation of social service community organisations with the community they service is, with a few honourable exceptions (typically Māori and Pacifica organisations), a conceit. (sub. 4, p. 17)

John Angus submitted that government attempts to support and build up community initiatives have been unsuccessful (Box 6.11).

Box 6.11 **Government and community-based initiatives**

In my view Government's attempts to support and build up community initiatives – those that have genuine grassroots ownership and support – have not been successful. For many communities government support has been a very mixed blessing. Here are some examples:

- I have heard Kim Workman very cogently argue that for 100 years iwi, hapū and marae based initiatives have been essentially colonised by government departments. Examples are: initiatives within Māori communities to support families of men who were at war, the Māori Women's Welfare League and, potentially, kōhanga reo. Such a process is a risk for Whānau Ora and I urge you to be aware of it in your case study.
- Provisions under the CYPF Act allowed for the establishment and approval of Iwi Social Services and Cultural Social Services, services with some of the powers of Child Youth and Family. In the 1990s I was responsible for making it happen along with senior officials from Child Youth and Family and the Community Funding Agency. The reasons for the failure were several: non-cooperation between Child Youth and Family and CFA over funding, an insistence that any service look very similar to Child Youth and Family, an unwillingness to give up power and control that verged on institutional racism and a breach of article 1 of the Treaty.
- A Community Initiatives Fund that threw money at community programmes in a way that almost inevitably set up failures.

Source: John Angus, sub. 109, p. 10.

The Community Care Trust identified a community development initiative funded through the Department of Internal Affairs:

> …the Greater Green Island Community Network where a cross sector of business, Government, education and social service providers form a steering committee based on a shared vision of the community but with unique interests and input into how this vision is achieved. This is supported by [the] Department of Internal Affairs Community Development Fund. (Community Care Trust, sub. 96, p. 6)

Funding should use a mechanism consistent with its goal. In this case, the goal concerns developing and applying community decision-making capability. Grants may be a more appropriate mechanism. Co-funding in some form by the relevant community is desirable, as such co-funding is a reliable signal of the community's priorities. Co-funding could be in resources or volunteer time.

R6.9 Government funding for community development should be through grants for that purpose, and co-funded in some form by the relevant community.

Provider reliance on multiple contracts to cover their overheads

A provider delivering multiple services may have "fixed" overheads. For example, all of their services require an office yet one office is sufficient to deliver all services. This is an example of economies of scope, which reduce the total cost of delivering services. However, when the services are independently funded, these circumstances create a *joint cost problem* (eg, Pfouts, 1961) for the provider, as identified by inquiry participants (Box 6.12).

Box 6.12 **Contracting arrangements cater poorly for provider overheads**

Submitters made the point that contracts do not cover all overheads, and that losing one contract can make the provider unviable:

> The area that remains problematic is the provision of some support for core organisational activities that enable groups to 'keep the doors open' and staff employed with some security … If groups are largely dependent on a succession of short term contracts they often find that legitimate overhead costs are discounted. Groups with a long and valuable contribution are too often only one failed contract or grant application away from dissolution. In this sense capability in the sector is lost – almost by accident. (WAVES Trust & Community Waitakere, sub. 83, p. 6)
>
> Often [a] government wants national providers but they have more overheads than smaller niche providers (who often don't have the [resources] for extensive quality systems). Overhead costs are not well recognised in many government contracts. (Relationships Aotearoa, sub. 56, p. 10)
>
> [P]roviding funding that covers overheads as well as service delivery [would reduce the cost to service providers of participating in contestable processes, as] this would enable social service providers to focus on what is really important, i.e. service delivery, which would ultimately result in better social outcomes and would reduce costs to service providers by not having to spend time and money sourcing alternative funds to cover overheads. (Age Concern New Zealand, sub. 100, p. 8)

If each service was funded to cover the full cost of overheads, then this would solve the provider's problem; but funders would understandably refuse to pay the same cost multiple times. Yet providers face a funding shortfall if individual contract payments do not collectively cover overheads.

This problem does not have a simple solution. Commissioning organisations need to balance competing objectives, including:

- maintaining a viable supplier market;
- encouraging diversity and competition in the supplier market;
- encouraging efficient provider scale and scope.

Commissioning organisations should coordinate with each other when their decisions will impact the viability of providers in each other's provider markets.

Because government is the dominant purchaser, it has the power to make existing providers with high fixed costs unviable. Government would like new providers to be able to enter, and for less efficient ones to improve or exit. In regular markets, market forces would sort this out – including dealing with joint cost problems. However, since social services markets are largely managed by government, solutions will likely involve government. The challenge is to intervene in a way that maintains or enhances the health and vitality of the provider market.

Monitoring, evaluating and learning

A crucial commissioning task is the collection and analysis of data. This data is required to support commissioning, the ongoing operation of the service, performance measurement and for service improvement. Such data in an essential input into feedback loops for continuous improvement and learning.

Chapters 7 and 8 discuss this topic.

Decommissioning

An important task of commissioning is being able to identify when a service is past its "use by date". This might arise if the service turns out to be ineffective, poor value for money or a low return on investment. It can also happen simply because a different service or approach proves to be more cost effective.

Decommissioning is less common than commissioning new programmes, leading to an accumulating stock of programmes (Chapter 2). Decommissioning challenges include provider pushback. Financial and reputational assets are at stake. Political and organisational brands can be damaged. The political rewards from housekeeping are lower than those of launching new initiatives.

Continuity for service clients is a further issue. Ideally, existing clients are smoothly transitioned to a replacement service, and relationships between clients and their service provider are maintained.

Ideally, future decommissioning is considered during the original commissioning process. Just like a building or a bridge, it is best to think early about how a service might be dismantled at the end of its life.

6.8 Commissioning skills and capability

The Wise Group identified a current lack of commissioning skills in government:

> The capacity and capability of the workforce undertaking commissioning on behalf of central or local government is variable and workforce churn for such roles is particularly high. (sub. 41, p. 12)

This chapter has explained what commissioning is and the tasks involved, and has provided guidance about how it should be undertaken. It has shown that commissioning of social services is complex, important and frequent. How effectively it is done will be a major determinant of how well social services meet the future needs of New Zealanders. Yet despite the importance of commissioning, no lead agency is responsible for building commissioning capability and sharing leading practices across social services; no guidance material is available; there are no requirements for commissioning agencies to implement the good practices identified in this chapter; and there is not a separate training programme for commissioning.

This is in stark contrast to contracting, where these features have been present for a long time and there is considerable effort to improve some of them (Chapter 12). Given the current state of commissioning in New Zealand, the Government should appoint a lead agency for commissioning of social services, with responsibility for developing commissioning capability. The lead agency could consider developing a good practice handbook, using the discussion and practices set out in this chapter as a starting point.

R6.10 The Government should appoint a lead agency to promote better commissioning of social services. This agency should produce guidance and facilitate training for commissioning organisations.

Within the broad framework established by the lead agency, individual commissioning organisations would retain responsibility for developing their own skills. However, they would be able to do so drawing on more advice and assistance than is currently available.

R6.11 Commissioning organisations should actively build the required skills, capability and knowledge base and use them to substantially lift the quality of commissioning.

A commissioning approach is a significant step from the current emphasis on purchasing and contracting. Government should take active steps to build awareness of commissioning and to demonstrate good commissioning.

The Commission has previously observed several professional networks in New Zealand that aim to increase coordination between regulatory agencies with similar competency requirements. The Commission recommended that the Government support such communities of practice, with partial direct funding where indicated, and encourage agencies to participate (NZPC, 2014b). A similar approach would be valuable in

the social services to encourage the development of good commissioning across government and non-government commissioning organisations.

R6.12 The Government should support the development of a social services commissioning community of practice and encourage commissioning organisations to participate.

6.9 In-house provision

This section provides further exploration of the in-house provision service model to supplement the discussion in section 6.4.

> Many tens of thousands of New Zealand workers are providing in-house provision. It is the major form of provision of social services in the country. (NZCTU, sub. DR221, p. 8)

In terms of the seven service models presented in section 6.4, there is no question that in-house provision is very significant in New Zealand. Whether it is "the major form" likely depends how large public employers such as schools, universities and hospitals are classified.[77] Regardless of such classification, the majority of social services workers are directly employed by public sector entities.

Advantages of in-house provision

In-house service provision has some generic advantages (Box 6.13).

Box 6.13 **Situations in which government might prefer to provide services in-house**

Public services should draw on expertise and infrastructure from both within and outside government. General situations in which government might prefer to provide services in-house include the following:

- *When the private sector does not have a strong need for such services.* This is the inverse of what is sometimes called the "Yellow Pages Test". If there is no listing for a service in the Yellow Pages, on what basis does government think an external provider might have the relevant expertise?
- *Contestability, benchmarking and price discovery.* Governments may choose to provide services in competition with external providers (eg, Kiwibank). Such competition can act as a threat against poor performance by those providers, as a cost or quality benchmark or as a means to discover the true cost of provision.
- *Risk management.* Public provision may be the preferred option when governments face high residual risks of performance failure by external providers.
- *Monopoly supply.* Public provision is one response to monopoly private supply (eg, electricity supply grids).
- *Positive spillover effects from public goods.* For example, Governments fund basic research in universities because market forces lead to a less-than-ideal supply of such research.
- *When there are no sharp peaks or troughs in demand.* The need for peak capacity is the principal reason why the defence forces so often turn to contractors for support services. It does not make sense to staff up for wartime needs in peacetime. Public-sector employment and management practices are better matched to stable demand.

The Public Services Association (PSA) expressed a strong preference for in-house provision:

> The delivery of public services by the state is the clearest way to ensure accountability (through its democratic institutions) for the use of public funds that have been raised through the coercive powers of

[77] Hospitals largely use a trust model (at least for clinical care). Universities use a voucher model. Schools exhibit features of both trust and voucher models.

> the state. It also ensures that public good interests are not overridden by private or sectional interests, as the state has a wider obligation to the community as a whole. The state's overview of services, if it is providing and not just funding them, allows it to take a coordinated approach to complex problems, maintain national standards, and ensure equitable access to services.
>
> Lacking a profit motive, the state as a provider is not concerned with market power, and looks to the public service ethic rather than personal benefit to motivate employees. Together with its accountability to the public, these factors make it a natural provider of public good services. In addition, the sheer size of the state suggests that there may some services that only it can provide because of the capacity required and the economies of scale it can achieve. (Public Service Association, sub. DR183, p. 8)

In-house provision of social services is useful when statutory powers are required, or the service is most efficiently bundled with services that require statutory powers.

Delivery of transaction processing of payments (such as income support) offers strong scale efficiencies (MSD, sub. DR224, p. 5). This supports having a single provider of such functions, though not necessarily in-house provision.

Social services involve people serving other people, and any commissioner or provider concerned about the delivery of high-quality services will pay a great deal of attention to recruiting, managing and developing its staff. In-house provision provides a more stable working environment for staff. It can avoid the under-investment in staff development that might result from a reliance on short-term contracting.

In-house provision avoids the need for clients to transition between providers when an incumbent loses a contract. The costs of transition can be high for those services where a close relationship between staff and clients is important for success.

Disadvantages of in-house provision

In-house provision often comes with the standard problems of monopoly supply. For instance, a client cannot choose their provider. In-house providers typically face weak incentives to innovate and to respond to the individual needs of clients. Sturgess (2015) pointed out:

> The public don't like monopolies. And they are suspicious of them in the public sector as well as the private sector. Sometimes there is no other way of organising the production and delivery of goods and services, but we all know from experience that monopolies are generally unresponsive to the needs of customers and service users, and they pay too much attention to the convenience of management and staff. (p. 7)

Commissioning, as described in this chapter, is often a rather murky process when in-house provision is involved. From outside, the commissioner and provider can seem one and the same.

A lack of clarity does not necessarily work in favour of in-house provision. Indeed, one motivation for external provision is to improve clarity around service cost and performance.

In-house provision, particularly within a top-down architecture, faces strong incentives to maintain existing programmes, with little regard for their cost effectiveness. Individual staff become tightly associated with specific programmes, and fear the loss of reputation and programme-specific skills should a programme be terminated. Internal challenges can be muted, as those involved in other programmes might fear such challenges if applied to those programmes.

Public delivery also offers poor incentives for innovation:

> Unfortunately most of the current institutional arrangements hinder the uptake and success of innovative approaches to service delivery … [I]nherent in innovation is risk. The Public Service wants innovation but its tolerance for failure is low. That's because they receive two messages from Ministers – make it innovative but if it fails we will look to apportion blame. (Wise Group, sub. 41, pp. 34–35)

The NZCTU disagreed:

> The view that innovation and new ideas can only come in social service delivery through new models in more privatised services, and not through in-house publicly provided provision, is unfortunate and incorrect. Much innovation happens and can happen in the public sector. (sub. DR221, p. 6)

Significant innovations can occur within an in-house service model. MSD's Investment Approach is one example (Chapter 3). Chapter 7 explores the barriers to such innovation, and how those barriers might be reduced.

Improving in-house provision

Investment in capability

The NZCTU identified workforce issues as important factors in improving service within current models:

> Failures and problems in the contracting system are not reasons for looking at other models which would extend the privatisation of social service. Rather, there must be much great focus on how current models can be improved. This must include attention to the all-important issue of workforce and consider wages, training and employment conditions. (sub. DR221, p. 28)

Improved visibility of in-house service performance and comparison with non-government or other public providers, will help to identify where capability needs strengthening and support the case for investment.

Benchmarking and contestability

The disadvantages of in-house provision can be mitigated to some extent by exposing the provider to robust performance benchmarking and holding them accountable for the service outcomes they have agreed to (Sturgess, 2015). Organisations do not need to face actual competition to behave competitively: it is enough that they face the credible threat of competition, which generally implies low barriers to entry and exit. Strictly, the term *contestability* refers to a system with these characteristics. This report defines contestability as the characteristic of situations where providers, whether public or private, face a real prospect that alternative providers will replace them if their performance is persistently unsatisfactory.

Contestability is vital when governments are procuring services from external providers under contract. But the concept can also be applied to social services that are overwhelmingly delivered by public providers. For contestability to act as a discipline in the public sector, it would seem that some structural change is required, as is a different form of engagement between commissioners and providers.

Contestability relies heavily on performance benchmarking, but with real consequences when providers fail to deliver. This helps ensure the public's need for transparency and accountability is addressed within a system that respects successful long-standing relationships with incumbent providers (management and staff).

A credible threat

The difficult part of this approach is the threat of real consequences when providers fail to deliver. School Boards and District Health Boards (Chapter 5) are examples of architectures where boards might suffer such consequences from poor performance. These models require, in turn, that boards have sufficient control over the factors that need to be changed to improve performance.

Public and private prisons are benchmarked in New Zealand. Privatisation or contract termination is a credible threat for under-performing prison management (absent a political commitment to a preferred model).

Separating commissioning and provision

Formal agreements between an agency and its internal delivery arm make costs and expectations explicit.[78] They should be mandatory when in-house government providers compete directly with non-government providers.

R6.13 Formal agreements between an agency and its in-house service delivery arm make costs and expectations explicit. They should be mandatory when that delivery arm competes with non-government providers, and are desirable in other cases.

[78] Such agreements should outline expectations, responsibilities and procedures for dispute resolution in much the same way as a contract. The report uses the term *agreement* here, as a contract between two parts of government is not legally enforceable.

Commissioning organisations (or at least their staff) may prefer in-house provision. Similarly, service funders may have a clear preference for a service model. Such preferences could determine the choice of a favoured service model over another more effective or efficient option. In the interests of improving outcomes from social services, it is important that in-house provision is treated neutrally in comparison with other service models.

Such neutrality might work against in-house provision if external provision occurs below its real cost:

> The way in which the 'costly production' of the state sector has been addressed over recent decades has been through underfunded contracts to the community and voluntary sector and the associated poor wages and conditions in that sector. Treating all providers 'neutrally' as proposed in recommendations [6.13] and [6.14] would just ensure that we get more of the same. (Public Service Association, sub. DR183, p. 8)

Parallel implementation of the Commission's sustainable funding recommendations should address this risk by ensuring that external provision and in-house provision are costed on the same basis. The results of such comparisons might therefore favour increased in-house provision over the status quo.[79]

R6.14 Commissioning organisations should ensure that in-house provision is treated on a neutral basis when compared to contracting out and other service models. This requires independence in decision-making processes. In-house provision should be subject to the same transparency, performance monitoring and reporting requirements as would apply to an external provider.

Recommendations 6.13 and 6.14 received very strong support in submissions from providers.[80] For example:

We warmly welcome recommendations calling for formalising, clearly specifying and neutralising arrangements that exist between agencies and their in-house service delivery arms. (PACT, sub. DR232, p. 4)

[79] At least in terms of cost. The Commission is not advocating that cost is the only basis for choosing a service model.

[80] These recommendations were numbered 6.1 and 6.2 in the draft report. Other supporting submissions include Emerge Aotearoa (sub. DR223), Blind Foundation (sub. DR221), Wise Group (sub. DR181), Refugee Trauma Recovery (sub. DR199), Social Services Collective (sub. DR164) and Mind and Body (sub. DR139).

7 A system that learns and innovates

Key points

- A system that learns needs to have:
  - clear goals around improving the return on investment in social services in terms of better outcomes both for clients and for taxpayers;
  - strong incentives to find, and the flexibility to try, new ways of doing things;
  - information flows that provide ongoing feedback to clients, providers and commissioning organisations and citizens about what is working;
  - a willingness to tolerate trials that fail, while dealing with failure quickly;
  - an ability to construct trials and experiments in a way that can be scaled up if successful; and
  - the flexibility to take up and spread successful innovations.
- Choosing commissioning institutions and service models that incorporate these features will increase learning and innovation in the social services system. Devolved approaches to commissioning are well suited to a social services system that learns.
- Innovation in social services involves introducing new or significantly improved services or business processes, for the purposes of getting better outcomes from available resources.
- Social services, with some exceptions, lag behind many other services in adopting innovative productivity-enhancing business models. Such models are often enabled by modern information and communications technology.
- Innovation in social services is often small scale, local, dependent on a few committed individuals and incremental; but innovation in some areas has led to substantial changes in business models.
- Risk aversion in government agencies and in some not-for-profits (NFPs), overly prescriptive contracts, capital constraints and "bare-bones" funding partly explain low levels of innovation in social services.
- The importance of evaluation for continual improvement in the design and delivery of social services is widely acknowledged. In practice, evaluation of many social services is absent or of poor quality, or not given enough weight in subsequent decision making.
- A number of initiatives under way should improve the quality of evaluation. Yet the system needs a change in approach to learning that brings together a wide range of information for cost-effective monitoring and evaluation in real time (Chapter 8).

Lifting the effectiveness of social services in New Zealand will require a system that learns over time about what works, then selects the successful approaches and winds down the approaches that fail to achieve good results. This chapter sets out the system characteristics needed to achieve these aspects, and how they differ from some current features that inhibit them. This chapter looks at barriers to innovation in social services and ways of reducing these barriers. It also identifies weaknesses in the evidence base for system-wide learning. Leveraging data and analytics to address these weaknesses is discussed further in Chapter 8.

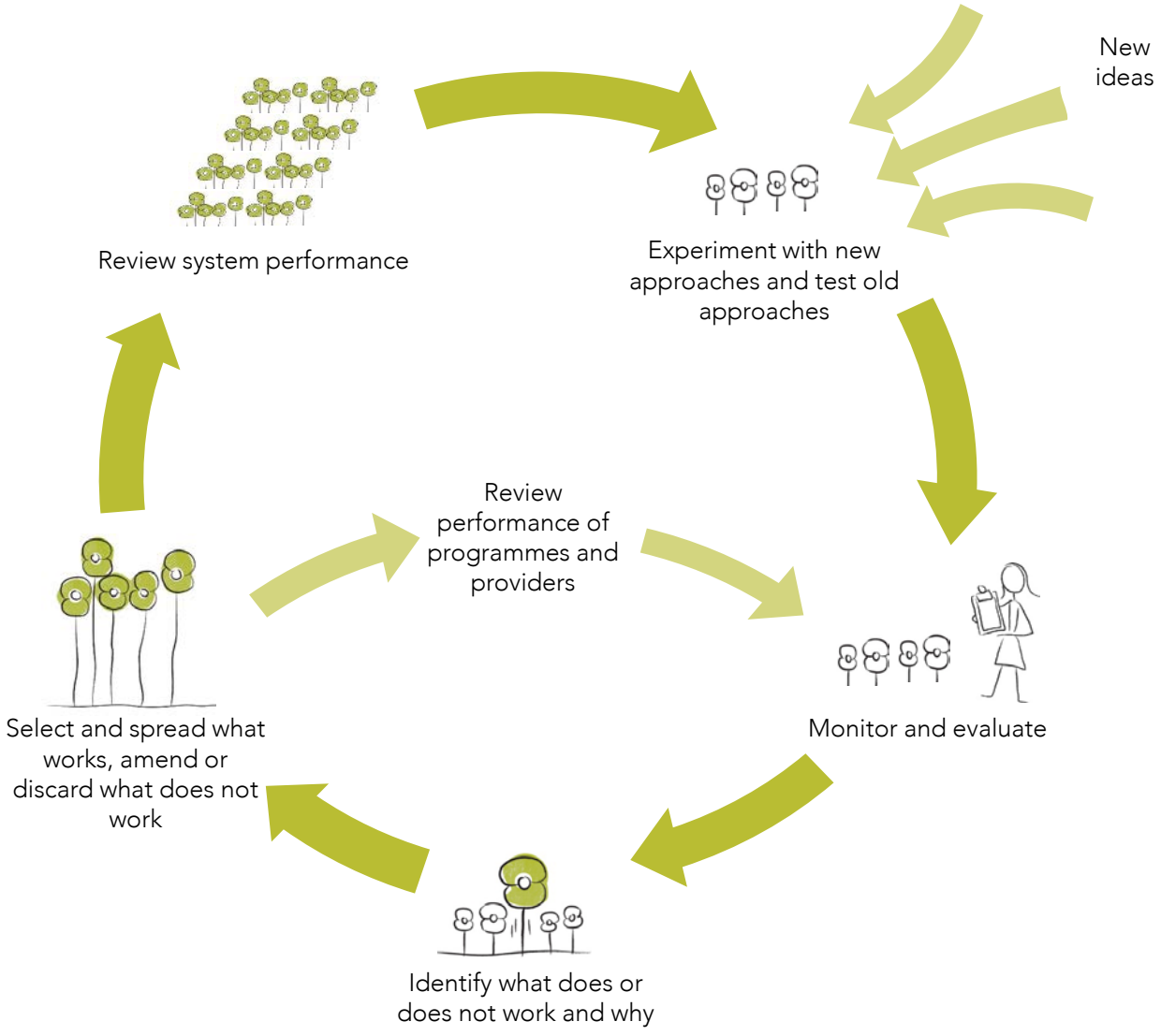
7.1 A system that learns

A system that learns needs:

- clear goals around improving the performance of social services;
- strong incentives and the flexibility to find and try new ways of doing things and test them against current approaches;
- ongoing feedback to the clients and providers of services and commissioning organisations about what is working (Chapter 8);
- a means to discard or amend the less successful and the failing services, and to select and spread the successes;
- a culture in which participants actively seek and welcome evidence to inform decisions; and
- a means to review the performance of the system as a whole and to initiate system-level changes that will improve performance (Chapter 6 and Chapter 14).

Commissioning organisations need to build system-wide perspectives and understanding of how the system is performing, both as a whole and across particular programmes (Figure 7.1).

Figure 7.1 A system that learns



The Australian National Disability Insurance Scheme (NDIS) demonstrates how a large-scale reform can be set up to learn. The NDIS is an ambitious, innovative approach to giving people with permanent disabilities more effective choice of the supports they need. The Scheme is being rolled out over several years (Chapter 3). The National Disability Insurance Agency (NDIA) is implementing a "learn-build-learn-build" approach to continually improve the Scheme's design while meeting quarterly performance targets. The Chair of the NDIA, Bruce Bonyhady, sees this as

> similar to computer software companies which regularly update their programs based on user feedback and research, but is unusual in social policy. Since the scheme's inception we have redesigned and introduced significant improvements every six months. These changes are based on evidence and the NDIA now has more data on disability in Australia than has ever been available. (Bonyhady, 2014a, p. 4)

Bruce Bonyhady told the Commission: "The only thing we can get wrong is not learning…It is only through trialling you discover the real implementation issues" (pers. comm., 13 November 2014).

Choice of commissioning institutions and service models matters for learning and innovation

Different commissioning arrangements and service models have different strengths and weaknesses in trying and selecting new approaches. A centralised top-down approach tends to generate fixed decisions about what works with too little tailoring of services to particular circumstances and discourages bottom-up experimentation. A top-down approach with political leaders at the apex emphasises risk management and has a low tolerance for failure. Such a model, even with experimentation, tends to dampen innovation because:

- experiments are subject to tight specification, reducing the possibility of serendipitous findings;
- experimentation is limited to relatively "safe" dimensions; and
- pressure to adopt "best practice" can lead to a one-off improvement, but eliminate service variations that might form the basis of future best practice.

A totally devolved approach permits a lot of local experiments, but applies little pressure to select successful ones. Ineffective services continue to operate indefinitely. A successful devolved approach requires shared information across the system that allows clients, providers and commissioners of services to identify and choose which services work best for them and to make ongoing improvements to services.

New Zealand has a highly centralised approach to commissioning social services (Chapter 2). The main funder, central government, takes most of the responsibility and is the main player in deciding what services should be provided to which clients. Commissioning organisations stress risk management, which poses a barrier to learning (Chapter 4; section 7.3):

> Most providers of public services, whether currently in-house or independent, have been bred to obey the diktats of their funders. Shaking this habit will take time. (Haldenby, Harries & Olliff-Cooper, 2014, p. 61)

While there is a continual stream of new initiatives, usually designed and specified from the centre, these rarely generate widespread change in the social services system. Instead, they are quickly superseded by yet further initiatives (Chapters 2 and 4). Meanwhile, funding for many existing services continues with relatively little evaluation or policy attention.

Even so, commissioning organisations have sometimes encouraged devolved and diverse solutions for some services. Yet without adequate evaluation and recognition of what does or does not work, no effective means exists of expanding successful approaches and curtailing unsuccessful ones. A system that learns needs to place a high value on evidence about what works. Where evidence on what works is lacking, the system needs to allow and then evaluate a diverse range of innovative approaches. A search for a solution will likely consist of a gradual refining of the approach to improve its effectiveness as further evidence accumulates. This requires strong feedback loops between clients, providers and the commissioners of services.

Social Sector Trials are an example where responsibility for finding coordinated local solutions to specific problems has been handed over to local staff, without a system for collecting data in a standardised way to permit evaluation.

Devolved commissioning for learning and innovation

Devolved approaches to commissioning services are well suited to a social services system that learns. They can support a diversity of providers, which leads naturally to more innovation (Sturgess, 2012). Further, devolving commissioning to regions, communities of interest or subsidiary national organisations distances the choice of new approaches from risk-averse central government ministers and officials. Also, regions, communities and subsidiary organisations vary not only in the nature of the social problems they face but also in their capabilities and perspectives. Devolved approaches are therefore likely to generate quite different solutions and stimulate ongoing learning about what works best (section 7.3).

Social services commonly address problems involving complex human interactions among people with multiple and inter-dependent needs (clients in quadrants C & D in Chapter 2). Solutions are often uncertain and incomplete because:

- the underlying causes are specific to a particular individual, family or community; and
- once services deal with some aspects of a complex problem, other aspects emerge unpredictably and in unintended ways.

Solving complex problems requires a system that can respond to unintended negative consequences when and where they emerge by trying new approaches and selecting the most promising solutions:

> Top-down initiatives and restructures tend not to work because, as complexity theory teaches us, the most effective change in a complex system comes about endogenously and incrementally, rather than externally and suddenly. Innovation comes about through learning over time. (Muir & Parker, 2014, p. 68)

> A major difference between government agencies and community providers … is the cultural and philosophical basis that is necessary for innovation. Government agencies tend to deal with complexity by fitting people and ideas into an established structure, while community organisations tend to welcome complexity, value it, and respond accordingly. (Hui E!, sub. DR213, p. 9)

Shared goals, managed markets, client-directed budgets (CDBs) and voucher models (Chapter 6) are examples of service models that encourage bottom-up innovation and learning and the spread of successful new ideas. By putting weight on the achievement of outcomes or meeting client needs, these service models reduce the need for prescription and provide more scope for providers to work with clients to generate new ideas, co-design services and to test new ways of doing things.

In some service models such as managed markets, CDBs and vouchers, providers also face competitive pressures to innovate. Providers can gain a greater share of the market if they are successful. This provides a mechanism for successful new ideas to spread (section 7.3).

F7.1 Devolved service models foster diversity, innovation and learning in the social services system. If well designed, devolved service models promote the selection and expansion of effective services and the curtailing of less effective services.

7.2 Innovation and why it is important

Statistics New Zealand (2012, p. 1) defines *business innovation* "as the introduction [by a business] of any new or significantly improved goods, services, processes, or marketing methods".

In social services, innovation could, for instance, involve:

- finding new types of services that are more effective in achieving results, especially for complex hard-to-solve issues;

- re-designing services so that they are more effective in achieving results for clients;
- re-designing business processes so that the costs of engaging with clients are reduced for the client and the provider;
- identifying and providing services for new groups of clients; or
- commissioning services in a way that makes better use of information about what works and for whom, and the cost of alternative approaches.

Innovation in social services is important. If productivity growth in social services does not match such growth in the wider economy, social services will become relatively more expensive as wages rise. To get more from existing resources:

- the social services system needs to generate more innovation and learn more effectively from successful innovations; and
- commissioning organisations and providers of social services need to better understand and address the barriers to successful innovation and the spread of innovations.

Despite top-down control, there is a continuing stream of innovations in social services in New Zealand (Chapters 2, 3 and 4). Innovation can be relatively small scale, local and incremental, yet cumulatively significant:

> [I]nnovation in social services is characterised by **incremental changes** and adaptations rather than disruptive processes. Most of the time, an innovative solution is characterised by the implementation of a new idea or a new step into a pre-existing process in order to better adapt it to new needs and/or make it more efficient. This kind of cumulative change can have greater impact on the quality and responsiveness of social services in the long-term but they are not always visible in the short-term. (Laino & Sütő, 2013, p. 5) [original emphasis]

At the other extreme, innovation in social services can involve system-wide step changes that involve large investments. Innovation can be present in service design and provision; and in the policy context for service provision. Some examples of social services innovation in New Zealand are noted in Box 7.1.

Box 7.1 **Examples of social services innovation in New Zealand**

Youth Horizons has introduced new (to New Zealand) programmes for young people with severe conduct difficulties, based on international evidence on effective programmes. Introduction involves careful implementation to show that the programme is working as intended and suits local conditions (sub. 67).

From the early 2000s the Wise Group

> …was able to substantially disinvest in high cost, low service volume bed-based services [for people with complex mental health needs] and reinvest in mobile support services that enabled people to live well in their own home. Service access increased markedly over this period. (sub. 41, p. 19)

Wise Group has since introduced employment services for this client group, targeted at the open job market which "was seen as revolutionary at the time" (sub. 41, p. 19).

The Ministry of Social Development (MSD) uses randomised controlled trials to identify which types of employment services work best for which clients in terms of reducing long-term benefit dependency. This information is used to assign clients to services in a way that makes best use of MSD's resources in achieving the outcomes sought by government (Chapter 3; Appendix B).

The Youth Service was a new policy introduced in 2013 and stimulated by MSD's Investment Approach. The Youth Service provides comprehensive personalised services to a client group that was previously under-served – young people aged 16 to 19 years not in education, training or employment. The policy introduced payments to providers for helping clients achieve education and training outcomes, something relatively untried in New Zealand (Chapter 3; Appendix B).

Yet social services, with the possible exception of health (Chapter 8), have not experienced the same sort of disruptive, innovative business re-organisation that has driven productivity in many services in other parts of the economy over recent decades. In services, such as banking and retail, firms have used information and communications technology (ICT) to process transactions more efficiently, improve knowledge about customer behaviour, allow rapid testing of alternative services, speed up information feedback loops, streamline supply chains and change the locus of decision making (NZPC, 2014a).

One reason for slow adoption of ICT to support new business models in social services is that many social services are built on the development of intensive interpersonal relationships. In this, they are more like law and other professional services than financial, retail and logistics services that are built on relatively large volumes of transactions. Large volumes of transactions are fertile ground for productivity-enhancing use of ICT and data analytics to build new business models.

Even so, Mansell (2015, p. 26) argued that "collecting, accessing and data sharing is the central feature of so many social services." As a result, there should be significant scope for using ICT and data analytics to get better outcomes from existing resources.

F7.2 Providers of social services have many opportunities to use information and communications technology to transform the way they engage with clients and commissioning organisations, and the way they design, monitor, evaluate and adapt their services.

The institutional architecture and service models used in social services are part of the explanation for the slow adoption of innovative business models (section 7.3).

7.3 Generating and spreading innovation

Where do ideas come from?

New ideas in social services can come from any direction. Sources might include, for instance, local reflection on practice, client and community feedback, the example of successful social services practice elsewhere in New Zealand and internationally, or new private sector business models and innovations that use ICT.

The New Zealand Council of Christian Social Services (NZCCSS) submitted:

> Community level innovation emerges from a variety of sources; it often occurs as a result of passion, drive and appropriate resourcing. Community organisations will use their infrastructure to provide venues, staffing and accountability structures for new initiatives. This is usually done at the cost of the community organisation which may start off just using their resources and skills to take a new approach. As additional needs and solutions are identified this may lead to a funding application to a philanthropic group, then after further refinement and development this may emerge as a bid to a government agency for support. (sub. 35, p. 8)

The Waimakariri District Council also stressed the importance of local initiatives:

> Innovation is more likely to be achieved at local level by people perceiving a need and having the imagination and energy to make changes, or by organisations confident in their role in providing services working beside other organisations undertaking similar work … to compare methods and outcomes and learn from each other. (sub. 75, p. 3)

On a much larger scale, MSD's Investment Approach (Chapter 3; Appendix D) drew ideas from the operation of the Accident Compensation Corporation (ACC), and from private sector development of real-time evaluation facilitated by ICT.

Philanthropists, social enterprises and for-profit (FP) businesses can be valuable sources of new ideas for social services. An important advantage of these sources is that they can act more freely and independently than governments, as they are not subject to the same political risks or other constraints.

Organisations can also use commissioning expressly to generate more innovation in social services. For instance, social bonds have delivered innovative ways to address difficult-to-solve social problems. Government social services agencies sometimes engage non-government providers to bring fresh ideas to areas where state provision has traditionally dominated (Chapter 3).

Stand Children's Services proposed that government agencies and non-government providers co-create and co-produce innovative approaches:

> Strong trust-based relationships developed between commissioning agencies, government and service providers that focus on co-creation and co-production would create a stronger partnership/accountability culture and in turn provide more stability for innovations that need long term investment. (Stand Children's Services Tū Māia Whānau, sub. 127, p. 12)

A lack of new ideas is not, by itself, likely to constrain innovation in social services. Yet the social services system, with its current institutions, favours some sources of innovation over others and dampens innovation overall:

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

> Innovation is alive and well among community based social services providers – witness our responses to earthquakes and the GFC [Global Financial Crisis] – but it is also recognised that even the best ideas still face an uphill battle to gain interest, let alone funding, from government. In a 'no new funding' environment huge effort can be required to gain support for even a small pilot project, so very many new ideas are simply abandoned. (Hui E!, sub. DR213, p. 9)

Central government currently has a dominant role in selecting new ideas for resourcing and trying out. This not only limits the size and diversity of the pool of new ideas; it tends to bias the selection according to political preferences, aversion to political risk and officials' need to keep control. A more devolved system architecture and more devolved service models are needed to encourage the spread of successful new ideas that have been identified and tested by social entrepreneurs, philanthropists, non-government providers, clients and communities.

F7.3 Currently government agencies have a dominant role in deciding which new ideas should be selected for further development, supported with government funds and applied in the social services system. A more devolved system architecture and devolved service models would better encourage the spread of successful new ideas. More trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, clients and communities would help lift system effectiveness.

Innovation in government provision of social services

Innovation in government services has an important role in promoting more effective social services. Yet government-provided services typically do not provide much room for experimentation. In particular, some services, such as policing, child protection and corrections, involve the exercise of coercive powers and close judicial scrutiny. Providers of such services need to follow prescribed processes rigorously, which limits the scope for innovation.

MSD's innovative approach to designing and targeting employment services for recipients of income support is a notable exception where experimentation and re-deployment of resources to more effective service models are built into the design (Chapter 3). Yet, while the approach is good at trialling and allocating resources more efficiently across different designs and client segments, it does not by itself encourage bottom-up innovation in the way that case managers work with clients.

The Public Service Association (PSA) argued that "there is … evidence that there is much innovation within the public sector, but it is often not recognised or well-supported" (sub. 108, p. 10). The PSA pointed to initiatives such as a project that successfully reduced the time taken for scheduling acute appointments at the Bay of Plenty District Health Board from 5 hours to 1.5 hours, reduced the need to re-book appointments

and allowed patients to choose their appointment times so that they were more likely to turn up. The PSA argued that "culture change needs to be normalised, to become the 'way we do things around here', so that lessons are systematised and used to innovate and improve outcomes, and failures are examined for ideas on how to improve" (p. 10).

Yet, consistent with the discussion in section 7.1, the PSA also argued that "top-down managerialism … does not help create a culture of high-trust workplaces where all workers contribute to public value and are supported as entrepreneurs" (p. 12).

Governments recognise the value of innovation in government-provided services. The Better Public Sector Advisory Group (BPSAG) identified in 2011 that "sharply improved state sector performance will require a culture that supports and actively encourages innovation and continuous improvement" (BPSAG, 2011, p. 39). BPSAG recommended that the Government

> require [state] agencies to:
>
> - drive continuous business process improvement through the use of 'lean' methodologies and,
> - drive innovation by benchmarking activity, identifying and implementing best practice from across the system. (2011, p. 11)

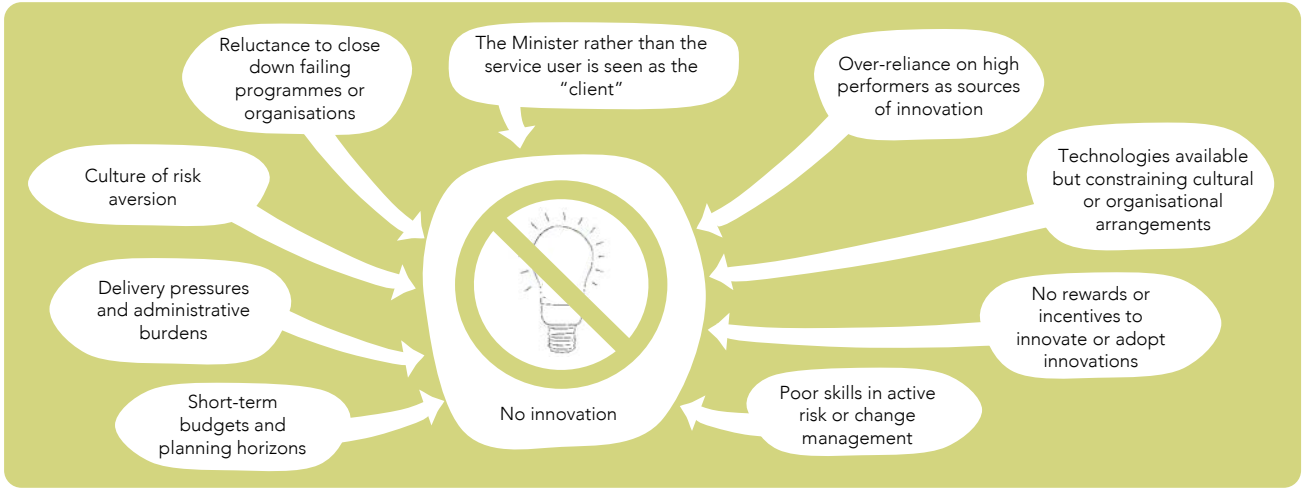
Clearly this recommendation covers government-provided social services, and MSD's Investment Approach is an example of the recommendation being adopted. Yet the PSA judges that the Better Public Services Programme and amendments to the State Sector Act in 2013 "indicate a rather limited view of the imperative for change" (sub. 108, p. 12).

The Australian Government Management Advisory Committee made 12 broad recommendations in 2010 on fostering innovation in the public services (Australian Government, 2010). The recommendations covered strategy and culture; leadership; resourcing and management; and recognition, sharing and learning within the Australian Public Service. Each recommendation has a number of components, in sum presenting a complex and inter-dependent map of proposed changes. Making sustained progress across such a broad range of initiatives represents a significant challenge in face of the barriers recognised by the report:

> Some powerful barriers, in particular political risk and public scrutiny, have a specific impact on public sector innovation. Governments and ministers are judged on their success and, in seeking to avoid criticism or failure, they can be conservative or resistant to innovative approaches. Political risk also contributes to risk-averse attitudes among public servants, and innovation is inherently risky. In the public sector, failures tend to happen in the full glare of public scrutiny, with consequent risks for the reputations and careers of public servants. It can be easier to avoid criticism by not taking risks. (Australian Government, 2010, p. VII)

Mulgan and Albury (2003) identify the same and other barriers to innovation in the public sector (Figure 7.2).

Figure 7.2 Barriers to innovation in the public sector



Source: Mulgan & Albury, 2003; Productivity Commission.

One recommendation made by the Australian Government report was for the public service to

> …establish a collaborative experimentation programme, modelled on the Danish MindLab, to develop and trial solutions to significant and cross agency problems in areas including policy and service delivery. A key activity under this program would be the development and implementation of collaborative pilots and trials. (Australian Government, 2010, p. X)

> …MindLab is a cross-Ministry innovation lab that facilitates the active involvement of citizens and businesses in developing new public sector solutions. MindLab specialises in facilitating discussions between public servants, citizens and business out in community settings. It uses the outcomes to redesign public policy in key areas. (Kelly, 2010, p. 1)

In New Zealand, government agencies and the Auckland Council have established an Auckland Co-design Lab that follows a similar philosophy of building policy and service design based on client input and local data and experience (McKay, 2014; IPANZ, 2015b).

The co-design model chimes with research that shows that public sector innovation often happens at middle levels in an organisation, led by individuals who are constructively engaged with clients, and who are willing to work around current rules and procedures (Eppel et al., 2008; Mulgan & Albury, 2003). Public sector innovation often involves crossing organisational boundaries and process re-engineering (Borins, 2001).

In other jurisdictions, non-government foundations hold competitions, such as the Innovation in American Government Awards at Harvard University's Ash Center for Democratic Governance and Innovation (Harvard Kennedy School Ash Center, 2015). In New Zealand, the Institute of Public Administration New Zealand holds a yearly competition for public sector excellence in a number of categories (IPANZ, 2015c). Innovation is one criterion on which the awards are made.

In sum, the Commission recognises that there are many examples of innovation in the public services. Yet the structure and culture of the public sector poses formidable barriers to client-centred innovation in the design and delivery of services, and the spread of new ideas widely across public services.

Some non-government providers are reluctant to undertake risky innovation

Historically, NFPs played an important role in developing new public services such as universal primary education, and employment insurance in the nineteenth century in Europe (Professor Gary Sturgess, pers. comm., 30 June 2015). It was only later that government agencies moved into these areas of provision and created the policy and financing conditions that now restrain NFPs' freedom to innovate.

Innovation carries risks for any organisation or business. Innovation may require capital investments, substantial re-organisation of business processes and the re-deployment of staff. The investment may be lost if the innovation is unsuccessful.

NFPs often match government agencies in their unwillingness to take on the risk of innovation, as they are less able than FPs or government to raise capital to fund innovation. Instead, they rely mostly on current and retained earnings to fund the costs, and underwrite the risks, of innovation (Appendix F).

F7.4 Many social services currently involve risk-averse government agencies contracting for services from not-for-profit providers that are unable to take on the risk of innovation. The combination stifles innovation.

Non-government providers more generally also face the risk of high dependence on a single (government) buyer who prefers short-term contracts and has the regulatory power to shift the goal posts down the track. The Public Health Association of New Zealand, for example, submitted:

> Public health services have experienced frequent, major disruption as a result of different political world views and constant organisational change in the health sector. This has been at times a distressing barrier to innovation. (sub. DR173, p. 3)

The Government can ameliorate this risk by credibly providing a sufficiently stable policy environment to encourage non-government providers to innovate. Policy stability gives providers the confidence to

innovate, without undue risk that government will make changes that undermine the value of their innovations or which distracts attention from implementing them successfully.

Even so, because of difficulties in funding and the risks from Government policy changes, many NFPs are reluctant to undertake innovations that involve large investments in equipment, recruiting new staff, training or substantial organisational change (Appendix F). Instead they are likely to favour incremental innovation in business processes and service refinements, in much the same way as small private-sector service firms do (APC, 2007; NZPC 2014a).

NFPs with diversified funding sources are less constrained than their smaller counterparts. Some larger New Zealand social services NFPs such as the Wise Group, Barnardos and the Auckland City Mission have introduced significant innovations. Large NFPs sometimes establish joint ventures, set up research capabilities in-house, and extend their professional capabilities by adopting new evidence-based methodologies. In this way, large NFPs match the role of large service firms in other parts of the economy. These firms often innovate using technology and complementary investments to obtain gains from coordinating across multiple functions (APC, 2007).

How can not-for-profits fund innovation?

The difficulty that NFPs face in funding their innovation is exacerbated if payments for services are insufficient to cover the full economic costs of supply (Chapter 6). NFPs often have limited capacity to spread risks across customers, service lines and regions. Short-term contracts and payment for outcomes also increase financial risks for NFPs (Restorative Justice Aotearoa, sub. 28).

Many submitters saw the tight budgets of NFPs as a main reason for social services lacking innovation. Many argued that government agencies need to bear more of the risk of innovation (Box 7.2).

Box 7.2 **Risk and difficulty in raising funds can stifle innovation by NFPs**

The Methodist Mission submitted:

> ...the sector [non-government social service providers] has a nasty habit of undercapitalising its innovations leading to high rates of innovation failure that are frankly inhibitive. (sub. 4, p. 21)
>
> …the great 'problem' of social services is … the lack of decent funding to enable agencies to hire the capabilities they need to exceed the necessary hikes in standards, reporting and outcomes expectations. (sub. DR135, p. 4)

The Salvation Army reported:

> Community Ministry does attempt to encourage innovation despite the very tight budgets they work within. They have approached Ministry of Social Development on some occasions to raise key issues and ideas. Community Ministry have also challenged and declined to bid for some Requests for Proposals (RFP) on the basis that the RFP required services were too risky or achievement of the outcomes for the funding being offered was highly unrealistic. (sub. 104, p. 7)

Others submitted:

> There is an inherent tension between delivering business-as-usual and exploring new ideas and testing them. This requires an organisation to develop a culture of innovation and to be willing to risk some of its capital to invest in innovation for the future. This can be very difficult for smaller enterprises. (Blind Foundation, sub. 16, p. 33)
>
> Contracts linked to contributory funding demonstrate a lack of commitment and investment by government in outcomes for that community/population. It is difficult to innovate when constantly having to focus on cash-flow issues and alternate sources to 'top up' funding. (Inclusive NZ, sub. 32, p. 7)
>
> Innovation will always include an element of risk and at government level there appears to be a low appetite for any risk but a high appetite for organisations to work differently and innovate. The risk is therefore left with organisations that operate in an unstable funding environment with limited capacity to predict longer term funding streams. (Birthright New Zealand Inc., sub. 128, p. 4)

> In reality providers are averse to taking risks or taking bold approaches to service delivery because of the potential impact this might have on their bottom lines or prospects for further contracts. (Restorative Justice Aotearoa, sub. 28, p. 7)
>
> Innovation and experimentation means risk. Some public service agencies are highly risk averse – this means the organisations they contract are unlikely to take risks as well. The public service funders and the social services agencies must be able to take risk, and where necessary learn from failure – and not be punished for it. (NZCCSS, sub. 35, p. 8)
>
> The major constraint on innovation is not in new ideas; it is in the investment potential of applying these ideas and the contract environment which ensures such investments have a reasonable return on investment. (Max Solutions, sub. DR200, p. 16)

F7.5 Innovation is risky and sometimes costly. Many not-for-profit providers cannot easily raise funds for investments. As a result, access to capital and limited cashflow are significant barriers to innovation in parts of the social services system.

Submitters offered a range of solutions to the negative effect of funding arrangements on innovation. Understandably, many saw higher levels of government funding as an answer, perhaps tagged specifically to innovation (Community Care Trust, sub. 93; Social Sector Trial Leads, sub. 126) or through pilot schemes, innovation grants or perhaps contestable test projects that could be rolled out if successful (National Council of Women, sub. 20; Lifewise, sub. 46; Presbyterian Support, sub. DR186; MAX Solutions, DR200).

Footsteps Education (sub. 42) supported the idea of a public endowment to fund innovation in services addressed at reducing child maltreatment. Other submitters saw philanthropic funding as a promising source of support for innovation (New Zealand Disability Support Network, sub. 47; BOP Community Response Forum, sub. 53).

Barnardos proposed that while government should fully fund activities that are clearly linked to government objectives, NFPs would use their own resources, possibly subsidised by government, to pursue their own objectives. Through its support, government would gain "…the ability to test or trial new ideas and approaches at lower cost and lower risk than if it fully funded an activity" (sub. 12, p. 15).

Consistent with Barnardos' proposal, the Commission considers that where government contracts with providers for the delivery of fully specified services, payments should be set at a level that allows an efficient provider to cover economic costs. This will give providers the confidence and greater capacity to invest in innovation (Chapter 6).

Commissioning organisations could also contract providers to design and try out different innovative service designs to assess which is most effective in achieving desired outcomes. This might be similar to the approach that MSD takes in trialling different service designs for income-support clients (Chapter 3; Appendix B). Lifewise submitted that "test contracts" should be subject to fail-fast "continuous improvement" oversight that rapidly identifies what is not working and leads to refinements (sub. 46, p. 3). Where the Government specifies and directly funds the development of an innovative programme and an evaluation that shows whether it works, the Government should have the right to share the innovation more widely in the social services system.

R7.1 Organisations commissioning social services should look for opportunities to engage providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should have the right to share the innovation more widely in the social services system.

Contract design and innovation

Because of the risk that other parties may challenge contracts and contractors' performance in the public arena, government agencies and contractors tend to prefer highly specific contract terms and payments that relate only weakly to performance (Spiller, 2008). Contracts that specify inputs, processes and outputs make it easier for each party to demonstrate that they have met the terms of the contract.

Over the last 25 years, public sector agencies have moved to more detailed, mostly outputs-based, contracts and audits for government-funded NFPs (Garlick, 2012). Yet, in submissions, providers of social services generally view negatively the current degree of prescription in contracts. In particular, many submitters considered that prescriptive contracts stifle innovation (Box 7.3).

Box 7.3 **Prescriptive contracts can stifle innovation**

The Youth Wellness Trust referred to

> … highly prescriptive and inflexible service specifications that stifle innovation, deliver poor outcomes and unwittingly increase risk because they do not reflect actual need. (sub. 73, p. 5)

Stand Children's Services Tū Māia Whānau similarly argued that

> [t]he current form of government contracts is also restricting innovation due to an over emphasis on performance risk resulting in 'directive' contracts that specify to the highest detail, limiting flexibility to try new approaches. (sub. 127, p. 18)

Wesley Community Action provided a specific example:

> By nature, most government contracts restrict the opportunity to innovate as the reporting requirement tends to lead the service delivery – leaving no room for innovation. An example is Family Start – aimed to engage those Whānau most at risk of poor outcomes, yet there is no flexibility in the manner or number of visits by a Whānau worker. The lack of flexibility and lack of understanding the individual issues of each Whānau means a one size fits all approach which is risk adverse and thereby restricting innovative opportunities. (sub. 6, p. 2)

The Dunedin Community Law Centre considered that prescriptive contracts, by stifling innovation, can lead to service provision that lags behind international practice:

> … if there is limited room for a service to develop and demonstrate their own ideas, this may discourage services from doing exactly this ... Highly prescriptive and limiting contractual arrangements between services and government will not help ... Failure to encourage social services to innovate may lead to New Zealand lagging behind their global counterparts in terms of programme development and service delivery, with the potential to let social service users down. (sub. 48, pp. 8–9)

Te Rūnaka o Ōtākou simply stated:

> The risk-averse nature of most government contract managers makes bottom-up experimentation and innovation virtually impossible. (sub. 110, p. 10)

Some submitters advocated alternative, less prescriptive, contracting approaches to foster innovation. The Salvation Army argued that non-government providers should be asked how they would address a key issue or need and that contract provisions should be co-designed with people including clients, who have real life experience of social services provision to vulnerable and marginalised New Zealanders:

> The Salvation Army offers examples like the Hauora Programme, our involvement in the Drug Court pilot projects, and our public health work in gambling addictions as some examples of client-led and innovative service design and delivery. (The Salvation Army, sub. 104, pp. 20–22)

Stand Children's Services (sub. 127) and the Community Care Trust (sub. 93) submitted that outcomes-based contracts offer more flexibility to try new social services approaches. This view was endorsed by the Auckland District Council of Social Services (sub. DR141) and Presbyterian Support (sub. DR186).

Wise Group (sub. 41) reported that contracts with the former Health Funding Authority (HFA) gave it the room to undertake substantial innovation in shifting from bed-based to mobile support services that enabled people to live well in their own home. Under the contract, the HFA required the Wise Group to experiment and report on innovation in services to improve outcomes for a specified population, but did not specify the model of care and service continuum.

MSD also recognised the need to balance accountability through tight service specifications in contracts against encouraging innovation (sub. 72).

Better evidence on the impact of services and less prescriptive contracts for outcomes, with longer durations, would give providers both a stronger motivation and more flexibility to innovate. Yet circumstances do not always support the use of contracting for outcomes (Chapter 12). A greater use of more devolved service models could substantially reduce prescription, increase the focus on outcomes and provide more room for providers to innovate (Chapter 6).

How do successful innovations spread?

The spread of successful new ideas and the elimination of less effective or unsuccessful services are central to a system that learns (section 7.1). "Arguably, most innovations spread through a process of adaptation and adoption, not invention" (Albury, 2011, p. 231). Looking at innovation in publicly funded services, Albury argued that the problem is not with the volume of innovations, but rather with their diffusion.

Albury (2011) observed that across innovative parts of the economy, innovation typically diffuses through the ebb and flow of firms as they succeed through adopting innovative approaches that customers prefer; or are overtaken by other more successful firms. Dynamic service industries typically have, at any one time, several large firms taking advantage of economies of scale offered by innovation, and a range of more specialised, niche firms and start-ups. Firm dynamics play a much more important role in the spread of innovation than the transfer of ideas across firms (Albury, 2014).

Publicly funded service industries, such as education and health do not have this structure. Their structure has remained static over long periods of time. Albury suggested that this

> is due to political control and the bureaucratic command cultures we have in the public sector resisting aggregation, which in turn means that the renewal and refreshing mechanisms operating in other sectors are weak or entirely absent … in turn this is the reason why innovation diffuses much slower across public sector organisations. (2011, p. 232)

Currently, the funding decisions of ministers and officials mostly shape which innovations in social services spread. Where innovations are selected, public sector organisations tend towards identifying and then universalising "best practice". This then limits diversity and further experimentation. Conversely, government is often reluctant to close down failing programmes or organisations, which, as a result, limits the resources available to support the spread of successful innovations (Mulgan & Albury, 2003).

Albury (2011) set out the key conditions for spreading innovation across publicly funded services.

- "Granular comparative information" on provider performance can stimulate service users to exert pressure that leads to adoption of successful innovations. By making providers aware that other providers may be getting better results, it also stimulates them to find ways of doing better. Albury (2011, p. 231) concluded "comparative performance information at the level of the subject or the specialty or the service is a critical part of performance improvement". Yet information by itself is not sufficient to stimulate the diffusion of successful innovations.
- "[A]dopting reward and incentive systems for deploying innovations is a really critical part of creating conditions for radical innovation. It is not sufficient merely to have reputational rewards in place, they need to be complemented with financial incentives, additional innovation funding, and performance bonuses" (Albury, 2011, p. 231). Albury noted that public sector organisations, such as schools, are typically not highly motivated to innovate or adopt successful innovations, as their performance makes little or no difference to their financial rewards. An investment approach to funding social services would strengthen incentives to innovate (Chapter 9).

- Strong demand-side desire for better performance can "pull through" innovation. Albury pointed to the role that user groups have played in speeding the development and deployment of particular types of new pharmaceuticals. Similarly, user groups have played an important role in a number of countries in developing new approaches to organising and providing disability services through CDBs (Chapters 3 & 11).

Elsewhere, Albury (2014) argued that factors such as the advantages innovations offer, how well they fit with existing values and practices, how simple and easy they are to use, whether they can be tried out on a limited basis first, and the observability of their results are highly influential in the spread of innovations (Robinson, 2009). Professor Gary Sturgess (pers. comm., 30 June 2015) told the Commission that lack of specialised or entrepreneurial personnel, attempts to economise on funding, a wish to achieve "quick wins", and increased prescription (compared with trials) are all reasons that could hinder the successful scaling up of a new service approach.

R7.2

Commissioning agencies should encourage the spread of innovation in social services by:

- using devolved service models and investment frameworks that put weight on what is valued by clients;
- improving the quality and transparency of information on service performance; and
- rewarding providers who innovate to improve their performance.

Better and more transparent shared information on performance will help spread innovation

Importantly, demand from users (individuals, families or communities) is the main driver of the spread of innovation. Spreading innovation in social services means having a system where information on service performance is widely shared, successful providers are rewarded with more business, other providers are stimulated to match their performance, and unsuccessful providers go out of business.

Often customers find it a considerable challenge to know the characteristics and effectiveness of the services they are buying. Commissioning agencies need to consider the availability of information on service performance. For instance, when parents face the important decision of which school their children will attend, the Government helps them make an informed choice by providing information about schools in New Zealand. This help is mainly through Education Review Office (ERO) reports on each school.

Similar information is likely to help clients of other social services make choices that result in the selection and expansion of effective services and providers. In the UK's National Health Service, people now have extensive opportunities to choose providers. For example, a patient needing a hernia operation will normally have a choice of hospital and even surgeon. Government assists with the patient's decision (or the GP's decision on the patient's behalf) by mandating the measurement and publication of a range of key performance measures for individual hospitals and surgeons (NHS, 2015).

Across the social services system, information that compares the performance of services using a common measure is crucial to ongoing adjustment of service design and targeting to improve outcomes for clients. The more comparative information that is publicly available the better. Publicly available information on effective services will build support for expanding them and help eliminate poorly performing services. Data and analytics to provide this information are the subject of Chapter 8.

Presbyterian Support (sub. DR186) submitted that ICT development and sharing across government agencies and NFPs, with standardised client results would help spread innovation. It also argued:

> An alliance of providers could be formed once a contract is let, which sees organisations sharing results and approaches to how best to achieve results. Some examples are evident in the Auckland DHB Home Support contract, and the Out of Gate contract with Department of Corrections. (sub. DR186, p. 7)

F7.6 Good performance information that compares services using a common measure is crucial for building support for spreading successful innovation and eliminating poorly performing services

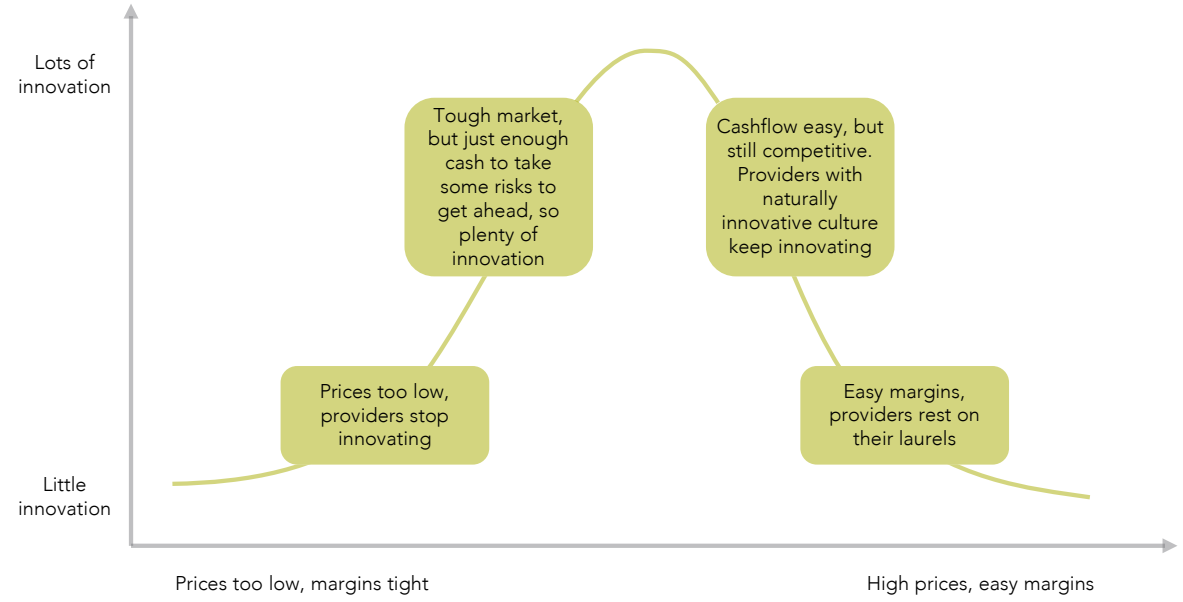
Managed markets, client-directed budgets, prices, and innovation

Managed markets, CDBs and vouchers are service models that, if well designed, support the generation and spread of successful bottom-up innovations.

Managed markets allow multiple providers to compete for market share. Managed markets are intended to mimic the dynamics of, and achieve some of the benefits of, normal markets. A main reason for using managed markets is that they can encourage innovation and the spread of successful new ideas. The contracting of employment services for welfare benefit recipients is an Australian example of a mature managed market. Providers compete for market share based on how successful they are in helping clients find and stay in a job. Yet the high degree of prescription in contracts and guidelines has likely limited how much providers can innovate (Chapter 3; Appendix B).

In managed markets, CDBs and voucher service models, commissioning organisations more often than not set prices, and service providers compete for market share. The prices that commissioning organisations set will affect how willing providers are to innovate. If providers can do no more than cover their ordinary costs, they will be reluctant to innovate. But if prices are so high that they can make easy margins, providers will also have less reason to innovate (Figure 7.3).

Figure 7.3 Price and innovation: The innovation bell curve



Source: Haldenby, Harries & Olliff-Cooper, 2014; Productivity Commission.

CDBs are likely to generate a high level of diversity and experimentation, because funding and decision making are highly devolved. Clients have strong incentives to find the mix and quality of services that best suit their needs within their budget. Providers, alert to the market opportunity presented by the buying power of the clients, will be keen to offer attractive services (including some that are novel) and make innovative use of new technologies. Clients choose the services they prefer and pay the provider for them. As a result, the successful providers have the incentive and funding to expand their supply of those services.

For this market-selection process to work well, it is critical that customers are well informed about the services they can choose.

In the absence of more devolved decision making, a centralised commissioning approach also needs to be more systematic in identifying and increasing the share of successful innovations and, conversely, eliminating

less effective and failing services. Barnardos, for example, proposed that the costs of funding new innovative programmes are met by decommissioning less successful programmes (sub. 12).

Who gets the benefits of innovation: policies to stimulate innovation?

Government policies to stimulate innovation in the private sector are usually justified by the spillovers that occur when innovations spread through the economy. Innovation is costly and innovators do not take account of the wider benefits when they decide how much to invest in innovation. Policies to increase the rate of innovation can include:

- research and development (R&D) grants;
- R&D tax credits;
- prizes (such as the Prime Minister's Science Prizes);
- intellectual property rights (IPR) protection; and
- promotion of collaboration between public institutions (such as universities and Crown Research Institutes) and private companies.

All these either increase the rewards to, or reduce the cost of, innovation.

Innovation in services (including social services) is often incremental and involves adjustments to business models and processes that are relatively easily observed by others:

> Spillovers appear to be ubiquitous in many parts of the service sector, though the innovative activities that lead to them do not necessarily involve R&D as usually defined. In these industries, many, but certainly not all, of the innovations visibly affect organisational structures, business processes and customer products. By their nature, the broad ideas underlying these innovations are easily understood and reproduced in ways that are far less ambiguous than for knowledge flows in any other part of the economy. (APC, 2007, p. 69)

APC (2007) argued government support for innovation in services in a normal market is hardly justified as

> …most policy analysts contend that spillovers in the service sector do not affect the amount of innovation to a degree that would warrant *direct* public support for these activities… (p. 71)

These conclusions clearly do not apply in the case of social services, which rely heavily on public funding and usually lack the strong competitive pressures that drive innovation in services elsewhere in the economy. It is in government's longer-term interests to stimulate the generation and spread of innovation in social services.

Further, innovation in social services is not necessarily easily reproduced. Learning how to make a new process work well may involve tacit knowledge and a developing organisational culture that is not easily transferred to a different organisation. "It is sometimes difficult to transfer innovative practices [in social services] as they arise at micro-level and under particular and given local conditions" (Laino & Sütő, 2013, p. 7). Innovation that depends on scale and complementary investments in technology to drive benefits is likely to be even more difficult to copy (APC, 2007).

Some of the policies used to stimulate innovation in the private sector could also be used in social services. Government could, for instance, give grants to organisations, offer prizes, or award contracts for new ways of developing and delivering social services. Yet Professor Gary Sturgess (pers. comm., 30 June 2015) pointed out that these types of incentives would not do much to stimulate the incremental innovation that is typical of social services organisations and cumulatively important (section 7.2).

Organisations commissioning social services could also encourage more collaboration between universities and social services providers. For instance, the Centre for Evaluation and Monitoring at the University of Canterbury has worked with New Zealand schools since 1999 in using value-added modelling to measure and monitor pupil progress, identify students at risk of under-achievement, and set learning targets (Boustead, 2012).

Barnardos (sub. 12) proposes a system where NFPs are free to develop new ideas with their own resources and, if successful, are rewarded by the Government providing stable long-term funding for services that use their ideas. By offering a credible contract to have the exclusive right to implement an innovation for a set period, this would mirror the use of patents that reward innovators with a potential market advantage for a number of years.

While innovation in social services generally does not lend itself to formal IPR such as patents or copyright, programmes are being developed that are then licensed to other providers. These programmes are usually evidence-based complex interventions, targeted to very specific client groups. Highly skilled staff implement the programmes. Successful implementation relies on close attention to staff development and programme fidelity. Examples include multi-systemic therapy and family-functional therapy targeted at chronically violent youth offenders. Developers of assessment tools also sometimes make them available under licence, at least in some jurisdictions (eg, NFPN, 2015).

Some submitters argued that competition for contracts makes it hard for providers to protect their innovative ideas from use by competitors (Box 7.4). Even so, NFPs facing competition for contracts often have a strong sense of mission and an intrinsic motivation to share the benefits of their innovation.

Box 7.4 **Intellectual property and competition for contracts: who gets the benefits?**

Barnardos consulted closely with Child, Youth and Family to develop a tool for their social workers to use when working with families. The development of the tool and associated training and ongoing support in its use represented "a significant investment in our intellectual property and social work practice capability …[which] has the potential to give us a competitive advantage when we go through the RFP process" (sub. 12, p. 9).

So Barnardos faced a conflict when asked to share the tool with another similar organisation. In practice, at Barnardos we

> share what we know as openly as possible …There is very little incentive (other than our commitment to our principles) for organisations to work to improve outcomes for children and families by sharing our learnings, our ways of working, our expert staff, and our systems and processes (sub. 12, p. 9).

Other submitters also argued that competing for contracts harms innovation:

> Another problem Carers NZ has seen with contestability is that it undermines the opportunities and incentives for "social enterprises" to innovate. Carers NZ has faced situations where it has presented innovative ideas to government agencies, only to have them share the ideas with potential competitors through a contestable procurement process. Carers NZ has had to compete to implement its own ideas. (Carers New Zealand, sub. 71, p. 8)
>
> Contestability can also erode collaboration and innovation that has been developed over a number of years. Providers may be unwilling to share in professional conversations about practice because they might need to rely on this to win a tender process. (Workbridge, sub. 102, p. 14)
>
> The Community and Voluntary Sector, on the other hand, is hard pressed to innovate. [Reasons include] … Innovative ideas in a competitive funding world, can lead to others 'stealing' that innovation. (Community Networks Aotearoa, sub. 31, p. 7)

On the other hand, the NZCCSS argued that learning from evaluations of programmes should be widely disseminated and not treated as intellectual property belonging to a particular provider:

> Quality independent evaluation of programmes at regional and national levels should be utilised to demonstrate the effectiveness of programmes and of service providers. Learnings from these evaluations should be widely shared – not seen as intellectual property to be used to derive profit for a company. (sub. 35, p. 10)

Some NFPs engage in joint ventures to share and get more leverage from innovation. Youth Horizons, for instance, has formed a joint venture with the Otangarei Trust and Ngāpuhi Iwi Social Services. Te Pae

Aronga Taitamariki, the joint venture, provides a basis to share clinical, cultural and local expertise, knowledge and experience to deliver intensive services for youth in Northland (Youth Horizons, 2015).

Yet it is in the funder's long-term interests both to ensure that providers are rewarded for their innovative activity (so increasing the rate of innovation) and that successful innovation spreads to other providers. Government agencies should observe normal commercial good practice and respect the confidentiality of innovative ideas that they receive from providers in the course of tendering contracts or otherwise. Where they wish to spread the innovative ideas, they should negotiate for the rights to do so.

R7.3 Government social services commissioning agencies should respect the confidentiality of innovative ideas that providers submit as part of a tender or in other circumstances. Where government agencies wish to spread an innovation that a third party creates, they should negotiate for the rights to do so.

Service models that provide for competition in the market rather than competition for the market (Chapter 6) are likely to alleviate some of the concerns about innovators losing the benefits of their innovation. Innovators would not then need to worry about the funding agency appropriating their ideas. They could appeal directly to clients to test the success of, and get the benefits of their innovation. If innovators chose, they could work collaboratively with competitors under arrangements that satisfy each party, just as happens in other goods and services markets.

In sum, innovation is a key to improved effectiveness in social services. The Government should develop policies to increase the rate of innovation in social services by rewarding innovation and removing barriers. This could include, for instance, the use of innovation, funds, prizes and in-house innovation labs.

More fundamentally, the establishment of a devolved social services system should create an environment that better encourages new ideas from diverse sources and the spread of those ideas across the system. The Commission proposes the establishment of a Transition Agency to oversee the development of a more devolved system (Chapter 14). It also proposes that the Social Policy and Evaluation Research Unit (Superu) (Box 7.6) has an enhanced role for evaluating the performance of the social services system. Together, these bodies would have an important role in monitoring the spread of innovation in a more devolved social services system and recommending adjustments in the system architecture and choice of service models to increase innovation.

R7.4 This inquiry is recommending greater use of devolution. Commissioning organisations should promote and monitor the spread of innovation in devolved systems. They should choose and refine services models to increase the spread of innovation.

7.4 Building a better evidence base

Clients, providers and organisations that commission social services have various information sources to support learning about what works and for whom, and about which groups should be the focus of new initiatives.

Youth Horizons submitted:

> As governments increasingly seek to obtain the best value for their populations and look for the evidence to guide this work, various approaches have evolved to provide helpful evidence. There is a wide range of relevant evidence including:
>
> - broad population-wide prevalence, demographic and other census information,
> - systematically collected longitudinal research,
> - randomised controlled trials, where confounding variables are relatively well understood and controlled,

- sustained programmes of work to develop evidence based interventions for particular applications,
- implementation science which examines how to replicate and then roll out these evidence-based interventions and practices on a larger scale,
- well-coordinated independent evaluations of programmes or initiatives,
- service providers' own evaluation of their programmes to demonstrate value added and inform quality improvement,
- narratives and informal client feedback. (sub. 67, p. 2)

Different methods are needed to gather and share information from these sources, of which formal evaluation is only one. Triangulating a variety of evidence is the best way to inform decisions on the design, commissioning, implementation and choice of services (Superu sub. DR182, p. 6). For many purposes, the use of readily available and timely data derived from regular monitoring and linking to administrative data is likely to provide a more cost-effective approach to informing decision making than the process of formal evaluation. Professor Gary Sturgess cautions against relying too much on "complex evaluation processes with 'long feedback loops' that can lead to policy decisions that misconstrue what matters on the ground" (pers. comm., 30 June 2015).

In contrast to relying on formal evaluation, a "learn-build-learn-build" process emphasises building the evidence base as part of a process of continuous learning and adaptation (section 7.1). Private sector service firms (such as retail chains and banks) use information systems that provide constant feedback about how the business is performing. This process allows continual adjustment to product design, prices, marketing and logistics (NZPC, 2014a).

Some approaches in social services similarly recognise that much of learning comes from on-the-ground experience and that this knowledge can be captured in real time and spread. One example is the Youth Service that MSD purchases from non-government organisations. MSD monitors the uptake of the programme weekly, and provider performance is monitored closely (on a monthly basis at a minimum). Generally, however, these real-time approaches to performance monitoring are currently rare (compared to the use of information in other service industries) and have limited impact overall.

Instead, the social services system typically looks to formal evaluation to support learning. This is tied to a "plan, do, review" approach to service development that devotes significant time to problem definition, information gathering, option identification, policy design and risk identification. Implementation then follows the template, without further adjustment until the service is reviewed. Even so, traditional evaluation is often carried out poorly in practice or is absent – especially across the large number of smaller programmes and providers of social services.

While recognising the importance of a wide range of information sources for learning, this section mostly discusses evaluation in social services and its limitations. Chapter 8 looks at how smarter data collection and analytics can address the limitations in evaluation and accelerate learning throughout the social system.

The role of evaluation in a learning system

Evaluation as broadly conceived is central to a system that learns:

> Evaluation is widely considered to be an integral part of public sector management. The promise of evaluation is that it will contribute meaningfully to the decisions made and the actions taken around policies, programmes, projects and operations. Evaluation is, at one level, viewed as a taken for granted 'good', i.e. as something that will contribute to better government, better policy, better delivery etc. It is considered an important part of ensuring government accountability, trust and credibility. Underpinning the public sector management frameworks of many developed countries is an assumption that public agencies will focus on results, and use empirical evaluative information to adjust activities and revise policy settings. (Aotearoa New Zealand Evaluation Association, sub. 37 p. 2)

Service providers can use evaluation to develop and improve programmes and to demonstrate programme effectiveness. Developmental evaluation can be an iterative process that feeds back into ongoing service design, often with significant engagement by service users:

> To find out 'why' a service has worked (or not) evaluators seek an understanding of the cultural and local context, the processes used during implementation – *and* the findings gained from data analytics … The nature of this type of evidence often reveals findings about local leadership, logistics, cultural appropriateness, and programme fidelity. (Superu, sub. DR182, p. 6)

Commissioning organisations and funders can use evaluation to identify effective programmes or programme elements. Information from evaluations is more valuable to providers and others if they can use that information to compare effectiveness and cost-effectiveness across a range of interventions and programmes (section 7.3):

> Evaluation can and should take place across the lifecycle of a program, from design and piloting through to implementation and ongoing mainstream delivery … It has an equally important role to play in testing the impact of new policies and testing whether existing mainstream programs are continuing to deliver outcomes effectively… Different types of evaluation provide different information and support different decisions. That's why it is important to plan upfront what questions need to be answered, how they will be answered, and by when. (NSW Government, 2014, p. 6)

The NSW Government has developed a set of good evaluation practice principles to guide government agencies commissioning services (Box 7.5).

Box 7.5 **Good evaluation practice principles**

The NSW Government has set out good evaluation practice principles:

- Evaluations should be built into program design…
- Evaluations should be methodologically rigorous, with appropriate scale and design … scaled to each program in accordance with the program's size, risk and significance…
- Evaluations should be conducted with the right mix of expertise and independence ... the person or agency conducting the evaluation should be independent from program managers…
- Evaluations should be timely to support and influence decision making … planning of evaluations should commence before implementation with the selection of methodologies and collection of baseline data…Summative evaluations should not be undertaken too early, in recognition of the time it can take to accrue sufficient evidence and produce measurable outcomes.
- Evaluation processes should be transparent and open to scrutiny.

Source: NSW Government, 2014, p. 9.

Superu highlighted the importance of "an evidence-based culture among decision-makers [that leads them to] …invest in evidence resources, encourage transparency about failure, and commit to using evidence to make changes" (sub. DR182, p. 6).

The evaluation approach needs to match the purpose

Superu submitted:

> Evidence needs and methods used in evaluation will vary depending on investment-levels, timeframes, stakeholders, clients, and the level of service maturity. Ideally more important decisions should draw on higher standards of evidence. (sub. DR182, p. 6)

Evaluation can be quantitative, qualitative or both. Measurement of impact and cost effectiveness and comparison of programmes at a population level usually requires quantitative data. Yet qualitative data is often important for understanding the relationships between practice and outcomes, developing hypotheses for further testing, and for identifying issues with programme implementation. The Impact Collective argues that qualitative data is needed to understand changes in complex problems – for instance to identify what is or is not working with current services, learning from service implementation trials, and obtaining client input into the design, review and evaluation of services (sub. 130, pp. 23, 26).

A number of submissions stressed the importance of getting client input into the evaluation of provider performance:

> Ensuring a strong voice of the service user in monitoring and evaluation of provider (government and non-government) performance is important. Empowering citizens to have a voice in these processes is important. (Social Sector Trial Leads, sub. 129, p. 16)

> Auckland City Mission's 'Family 100 Research Project' is an example of a client-centric project providing findings on a range of issues such as housing, debt, food insecurity, health, education and employment. Although this is not an evaluation with a control group or randomised control trial, it does provide insights on how multiple issues can work in concert to prevent people from moving forward. (Superu, sub. 82, p. 5)

> Client feedback is the most effective way of measuring the effectiveness of a service. If the client reports that the counsellor or budget advisor have helped them achieve their goals or improved their life then that is a positive outcome. (The Raglan House, sub. 24, p. 8)

Auckland North Community and Development went further and argued that outcome goals and measures for evaluation should be developed locally:

> Successful evaluation recognises differences between people, places and programmes. The requirement of differentiation raises doubts over the efficacy of a single common outcome framework such as RBA [Results Based Accountability] promoted by the current government. Outcome goals and measures should be developed and established where the delivery takes place. It should be based on effectiveness of service delivery or a determinant of programme shortcomings as the basis for improvements and not just as a reporting tool. Reporting with this framework can create considerable work for the provider without the benefit of activating any real learning and improvements in service delivery. (sub. 22, p. 3)

Anglican Advocacy argued that: "The stories and experience of front line providers are essential before deciding what constitutes results and how they will be measured" (sub. DR180, p. 3).

One area of evaluation that is more often than not missing, yet is highly important for an expanded investment approach to resourcing social services (Chapter 9), is the evaluation of the cost-effectiveness of interventions (Robertson, 2014).

Using multiple data sources for evaluation

Currently, most social services evaluations rely on data collected for that purpose. Yet because of cost, the evaluations usually cover a narrow range of variables. Even so, some submissions commented on the value of a broad range of low-cost sources of information for operational and evaluative purposes:

> While conceptually everyone is clear that preventative work may well save both economic costs, and human costs, demonstrating this requires a broad approach to data, and a need to learn from many sources of information to assess whether benefits are realised over time. (Youth Horizons, sub. 67, p. 3)

> One way to reduce the burden of data collection and increase the number of service users that can be followed up, particularly over time, is to utilise interagency data, such as youth offending data pre, post and at follow up, police involvement, school enrolment and attendance and other key indicators. While there are promising moves towards making this kind of anonymised programme wide data available for evaluation, this has not yet been successful…

> The MSD Youth Service contracts for youth [sic] people not in education, employment or training on Youth Payment or Young Parent Payments are an example of a government Ministry working with service providers in this way, providing outcome data as part of the process of assessing the impact of the service. (Youth Horizons, sub. 67, pp. 5–6)

> The greatest potential though would be that these [IT] systems could potentially provide for the collection of aggregate data on a considerable range of issues and other variables not dissimilar to that collected in the health sector, and not previously available to the social services sector and its contracting partners. (Relationships Aotearoa, sub. 56, p. 9)

Multiple real-time data sources on individual clients will also allow more timely and accurate interventions. For instance, service providers could integrate data (from wearable sensors (eg, measuring heart rate) and geospatial location) with medical records. Applications could communicate directly with doctors or emergency services and support a range of new services that could save lives (and cost) (Mansell, 2015).

F7.7 The current approach to evaluation in social services fails to make cost-effective use of the wide range of information being generated by daily interaction between clients and services. Such information is often not collected or not linked, so limiting its usefulness.

Real-time evaluation

One problem with the standard evaluation model is that considerable time often elapses before results are available to influence commissioning, contracting and operational decisions. Real-time evaluation aims to overcome this problem, and is widely used in private-sector service industries such as retail.

Real-time evaluation in social services has a few examples in New Zealand. For instance, the Department of Corrections submitted:

> The success of the original [Out of Gate] programme has led to it being extended to a more demanding subset of short serving prisoners. The real-time evaluation of the service has enabled the Department to expand the programme more rapidly than would have been possible if the expansion had been reliant on a post-trial evaluation. (sub. 21, p. 2)[81]

MSD uses real-time data to regularly monitor when clients assigned to different services move out of the income support system. With changes to the Public Finance Act 1989, MSD has more flexibility to shift resources between services to respond to emerging trends.

Monitoring and evaluating the performance of a much wider range of social services in real time and responding to trends as they emerge would offer significant improvements in efficiency and effectiveness.

R7.5 Commissioning organisations and providers of social services should use a wider range of data sources to monitor and evaluate service performance in real time. Then they could respond to trends promptly and so achieve significant improvements in efficiency and effectiveness.

Evaluation weaknesses in New Zealand

Good evaluation is well embedded in some parts of the broader social services. Pharmac in health and the ERO in education carry out structured, systematic evaluations of service effectiveness that guide continuing refinement of services, and (in ERO's case) help parents and students in their choice of school.

A systematic, structured approach is less apparent in other parts of the social services system. While the contribution of good evaluation to an effective system of social services is widely recognised, the Government and its agencies sometimes have strong incentives to suppress results that show a programme is performing poorly. New initiatives are often associated with an agency or political brand, and a perception of poor performance puts that brand at risk. One senior official, in meeting the Commission, described a government agency's internal evaluation unit as a "bomb factory" because evaluations were late and found faults. In practice, even major programmes are often not effectively evaluated, whether because evaluation was not planned as part of policy development or the programme's objectives and intervention logic were not well specified.

For instance, according to CCS Disability Action,

> [t]here are … no key performance indicators, or targets, for Ministry of Health or Ministry of Social Development disability services, despite the Ministry spending over one billion dollars a year on services ... There has been a lack of robust evaluation and critical analysis of reforms.
>
> There has been little attempt to objectively compare the effectiveness or efficiency of piloted services to existing services, which provide a similar role. System wide reform needs to be based on reliable data, including data that measures actual impacts by comparing pilots with existing services ... (sub. 65, p. 5)

[81] See Box 12.7 for a description of the Out of Gate programme.

The Impact Collective commented:

> There are virtually no routine outcome monitoring, evaluation or audit activities currently undertaken in the domestic violence and child abuse sector. Almost no new initiatives have been evaluated. (sub. 130, p. 22)

A recent Cabinet paper on youth mental health services noted:

> We lack information about whether services are efficient, cost effective or appropriate for the New Zealand context. There is insufficient information about programme effectiveness and particularly evidence about what works for Māori and Pacific people. We tend to focus on new interventions at the margin, rather than considering the appropriateness and efficacy of what is already in place. (Prime Minister, 2012)

Superu (Box 7.6) noted that "…there is widespread recognition that social sector providers often do not have the capability to conduct robust outcomes-based evaluations" (sub. 82, p. 5).

To the extent that evaluations can adversely affect the payment they receive for services or the opportunity to receive future contracts, some providers may also prefer weak or no evaluation.

At a more fundamental level, many providers are not even recording basic data required for monitoring and evaluation:

> [I]nformation about who receives services and programmes is often limited and is collected by providers in an ad-hoc manner without any systematic method to capturing this data… Where there are data-capturing systems, they tend not to be consistent in what they record or how it is determined. (Social Sector Trial leads, sub. 126, p. 23)

Superu summed up the weaknesses in the evaluation of social services in New Zealand. These include:

- Inadequate consideration of research, evaluation and monitoring at the design and implementations stage [so that] … data collections systems are [not] put in place to allow effective evaluative activity;
- Funders are primarily interested in evaluating the success of their individual programmes, but when dealing with complex social issues 'a system-wide approach' is required to understand whether or not long term benefits are being realised…
- …evaluations are often limited in scope and/or conducted over a limited period of time. This means that information received from monitoring and evaluation activity tends to focus on inputs and outputs rather than long-term outcomes… (sub. 82, p. 4)

F7.8 Many parts of the social services system lack a systematic, structured approach to evaluation. Major government programmes are often not adequately evaluated. Evaluation is often not built into the design and implementation phase of new programmes. When programmes are evaluated, negative results are sometimes suppressed. Evaluations often are of narrow scope and fail to look at system-wide and long-term costs and benefits..

Current initiatives to address evaluation weaknesses in New Zealand

Initiatives are under way to address some of the weaknesses in social services evaluation in New Zealand.

Superu (Box 7.6) is putting in place complementary measures to improve evaluation practice and the use of evidence in the social services system in New Zealand.

Box 7.6 **Superu – the Social Policy Evaluation and Research Unit**

The Families Commission operates under the name Social Policy Evaluation and Research Unit or Superu. Superu is aimed at increasing "the use of evidence by people across the social services sector so that they can make better decisions" (Superu, 2015a). It does this in a number of ways.

Growing evidence about what works: Superu leads selected evaluations that span the social services sector, including the multi-agency evaluation of the Prime Minister's Youth Mental Health Project. It manages the Community Investment NGO Evaluation Fund to help providers increase their capability for evaluation, monitoring and data collection. The evaluations will help funders and non-government providers:

- better understand what works, where and for whom;
- better measure the effectiveness of programmes and services; and
- make organisational development and service improvements (Superu, sub. DR182).

Making research easier to find: Superu improves access to research through "The Hub", a one-stop shop for New Zealand social science government-funded research related to education, health and wellbeing, crime and justice, families, children and young people.

Making evidence easier to understand: Superu synthesises international and domestic evidence for decision makers in the social services sector, in particular in its "What Works" and "In Focus" series. It regularly works with policymakers and academics to develop "a commonly agreed set of forward research priorities" for the social services sector (sub. DR182, p. 9).

Supporting the use of research: Superu runs or supports seminars and other events that bring knowledge generators together with those who will use the evidence for decision making.

Building infrastructure and capability: On behalf of the Crown, Superu manages the Growing Up in New Zealand (GUiNZ) study, a longitudinal study of 7000 children conducted by Auckland University. Superu runs a policy forum to help guide research outputs and facilitates a users' group to increase analytic capability to use the GUiNZ data.

The Evaluation Standards for Aotearoa New Zealand were developed by Superu in partnership with the Aotearoa New Zealand Evaluation Association (ANZEA). The standards provide high-level guidance on what should be considered at all stages of a quality evaluation (ANZEA & Superu, 2015). Superu will now expand and tailor the standards for different decision makers (Superu, sub. DR182).

The Commission considers that ANZEA and Superu's high-level evaluation standards (Box 7.6) will be usefully supplemented by more practical guidance on evaluation for commissioners, funders and providers of social services, such as those published by the NSW Government (Box 7.5).

R7.6 Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. When the Government funds social services evaluations, it should require adherence to those principles.

The Commission was told that many evaluations funded by government agencies are not published and their existence may not be widely known. Superu has developed a protocol for the publication of social science research and evaluation products conducted or commissioned by government (Superu, 2015b). This includes government agencies having a responsibility to publicly announce and provide information on their social science research and evaluation projects and to publish results promptly. The Commission considers that adherence to the protocol will over time improve the quality of evaluation and lead to better and more consistent use of evidence in the commissioning, design and delivery of social services.

R7.7 Superu has developed a protocol for the publication of social science research and evaluation products conducted or commissioned by government. The Government should require all government agencies that produce or commission social science research and evaluation to adhere to this publishing protocol.

MSD is promoting better evaluation of programmes that it funds as part of the Community Investment Strategy (CIS).[82] Working with Superu, this includes:

- identifying priority programmes to be evaluated, and developing an evaluation schedule to cover the next three years (MSD, 2015a);
- developing guidance for evaluators and providers on using evidence and evaluation; and
- developing a strategy for disseminating the results of evaluations.

Even so, within the scope of the CIS initiatives, a large number of smaller programmes will not be formally evaluated over the medium term.

MSD also provides guidelines, resources and expertise to support providers to use Results Based Accountability (RBA) (MSD, 2015b). RBA uses measures of the quantity, quality and impact of the work done to show how an individual agency or programme or system of services achieves client results/outcomes (Box 12.4). The approach tailors accountability and measurement to the scale and sophistication of a provider, reducing unnecessary use of paper. The aim is to monitor and show how services contribute to improving population-level outcomes. Yet the Commission understands that RBA practice in New Zealand tends to be qualitative rather than quantitative and does not currently provide a consistent population-level picture of outcomes.

Funding for evaluation

Building evaluation capability and carrying out evaluations require resources:

> There are costs at multiple levels in relation to using data. There is client time taken to complete client measures (e.g. behaviour scales, questionnaires etc.). There is the cost of practitioner/evaluator time in gaining consent and collecting data, data entry costs, data analysis costs and the cost of skilful interpreting data to accurately inform service development. As data collection is not the focus of most practitioners, time and effort is required to promote an evaluation culture and [conduct] checks to promote compliance with data collection.
>
> These costs need to be weighed up against the reliability, validity and meaningfulness of the data. That is, is the data "worth" the effort required to not only collect but interpret and use it… (Youth Horizons, sub. 67, pp. 5–6)

As discussed in section 7.3, many NFPs lack the capacity to raise funds to invest in capability development. Unsurprisingly, many submissions reported that providers find it hard to fund evaluation:

> [I]t must be emphasised that there is no additional funding for evaluating outcomes of the service purchased (say 1% of the contract price), despite the notice from MSD that Evaluation is going to be a contractual requirement. This squeezes margins even further under the contributory funding model. (Social Services Providers Aotearoa Inc., sub. 129, p. 9)
>
> Community organisations often do not have the time or expertise to effectively design and deliver a good evaluation model, and this is seldom funded (apart from MSD and its promotion of the RBA model in Auckland). (Auckland North Community and Development, sub. 22, p. 2)

Alcohol Health Watch referred to "[i]nadequate resourcing of evaluation – so we don't know/can't show a programme has worked or not. This can result in significant waste of resources and reinventing wheels" (sub. 84, p. 8). WAVES Trust and Community Waitakere asked "…are community organisations adequately

[82] CIS is the former Investing in Services for Outcomes programme (Chapter 12).

funded to do this [evaluation] work? Many contracts do not currently provide funding that is earmarked for evaluation" (sub. 83, p. 17).

Submitters proposed a range of approaches to funding evaluation (Box 7.7).

Box 7.7 **How should evaluation be funded?**

Submitters had a variety of views on how evaluation should be funded:

> If government wants greater accountability and evidence of service effectiveness to support funding decisions, it needs to fund research and evaluation when purchasing services, as current service provision rates do not enable NGOs to fund this themselves. (NGO Health and Disability Network, sub. 70, p. 14)
>
> [Funders should] …[r]equire a proportion of the cost of a service to be spent on evaluation in order to build the body of data required to do this a lot better. This may mean less activity in order to better understand quality, effectiveness and attributability. (Public Health Association of New Zealand, sub. 122, p. 11)
>
> It would be in government interests to build evaluation capacity in the sector in a way that is sustainable and not dependent on project funding and pilots as is currently the case. (Youth Horizons, sub. 67, p. 6)

Barnardos (sub. 12) proposed that when services are contracted to meet government objectives, the "costs and infrastructure requirements of measuring outcomes and outputs is factored into the price paid for services" (p. 14). But when services are funded mostly by the provider to meet provider objectives, then government may, but would not be expected to, provide funding for evaluation.

F7.9 Many not-for-profit providers find it difficult to fund evaluation on top of delivering services and, in any case, lack the capability to carry out good evaluation.

Evaluation covers a wide spectrum of approaches. At the very least, service providers, clients and commissioners of services need information on service effectiveness to inform their decisions. Without this information there is little point in providing a service in the first place. Yet this does not mean that formal evaluation is always the best or most cost-effective approach to measuring service effectiveness. An example of an alternative approach (covered in Chapter 8) would be for funders to require providers to capture basic information about what services they are providing and who is using those services. This data could then be linked in de-identified form at low cost to administrative data that provided information on service outcomes. The funder would provide analysis of outcomes and feed this back to providers and service users.

This example suggests that there should be a mix of responsibilities for funding evaluative activity. The costs of data collection and analysis that are borne by providers should be taken into account by funders when they set prices for services. On the other hand, programme-wide evaluations, such as that for Family Start (Chapter 2), and evaluations that use shared data sources have significant economies of scope. It is in the interests of commissioners of social services to find the most cost-effective means to evaluate the programmes they are funding. This may well involve separate funding for a programme evaluation.

Howard Fancy, former Secretary of Education, put it simply: "Big system evaluations need to be done by experts. But you also need system feedback and collection and assessment of data" (pers. comm., 7 July 2015).

R7.8 Commissioning organisations should ensure that the performance of each social service programme they fund is monitored and evaluated in a way that is commensurate with its scale and design. When commissioning organisations fully fund service providers to deliver government goals and commitments, they should only fund programmes whose performance can be evaluated.

Limits to the standard evaluation model

The Commission considers that current initiatives led by MSD, Superu, ANZEA and others to develop a more systematic approach to evaluation of social services programmes and to improve the quality of evaluations are worth pursuing. Yet, in the standard evaluation model, there is sometimes a trade-off between good evaluation practice and cost and time. In practice many evaluations fall back on looking at a few outcomes, using small samples and no control or comparison groups. This means that making generalisations of the findings is difficult (Mansell, 2015).

The Commission considers that it is simply not feasible or cost-effective to extend the standard model of good evaluation on a programme-by-programme approach across the large numbers of small contracts and small providers that currently have contracts with government agencies.

Further, extending good evaluation practice widely across small providers and programmes would not, by itself, provide all the capabilities needed to support learning across the social services system. In particular, performance would still need comparing across the system to better identify, reward and spread superior performance, help average performers to identify ways to improve their performance, and assist the exit of unsatisfactory services. Comparisons of this sort require a consistent and coherent system-wide collection and analysis of data, cost-effectively scaled to the size and sophistication of programmes being funded.

In addition to well-chosen formal evaluations, government agencies should facilitate the collection by government-funded providers of basic information on clients and service provision that can then be linked to de-identified administrative data for the purposes of evaluation (Chapter 8). This would provide the basis for producing timely comparative information on service performance.

A change in approach is needed to monitoring and evaluation in social services

The Commission considers that a substantial change in the approach to building the evidence base across the social services system is needed. This should use a much more cost-effective and integrated approach to monitoring and evaluation than at present, and one that is less onerous for providers.

At the same time social services agencies should promote a culture of learning that welcomes evaluation and has the maturity to take results that reveal service faults as an opportunity to improve.

Wide access to, and use of, data and analytics offers the attractive prospect of stimulating a diversity of approaches across the social services system. At the same time, improved data and analytics would provide a practical, cost-effective and powerful means to evaluate the success of services across the social services system, in terms of improving outcomes for clients (Chapter 8).

8 Leveraging data and analytics

Key points

- A system that learns needs timely client-centred data and analytics to be available to decision makers at all points in the system. The data and analysis needs to match the different types of decisions being made by clients, providers, purchasers and commissioners of social services.
- Cost-effectively collecting, sharing and analysing data across the social-services system will greatly increase the capacity of decision makers to design and commission effective services, and to target resources to where they have the greatest effect on improving outcomes.
- Developments in data technology and analytics have transformed many service industries. The same developments have the potential to support new ways of organising and providing social services that will bring substantial improvements in effectiveness.
- The New Zealand Data Futures Forum (NZDFF) has recommended a way to realise the potential benefits and mitigate the risks of sharing, linking and using data.
- The NZDFF recommended that getting value from sharing, linking and using data should follow the principles of inclusion, trust and control. *Inclusion* is raising public awareness and capability in finding, using and understanding data and the data environment. *Trust* is focused on building trust in the sharing of data. *Control* is giving individuals more control over the use of their personal data.
- The Government, and social services providers and clients, should use the NZDFF recommendations as an opportunity to explore innovative approaches to addressing social problems and enhancing social outcomes.
- As a first step, government social services agencies need to make progress on sharing and linking their operational data (with appropriate protections). Better use of linked cross-agency data could increase the scope and accuracy of the an investment approach to targeting social services as well as supporting better-integrated tailored services for clients.
- Government social services agencies and social services providers should capture information on their clients and services in a consistent way. Doing so would allow commissioners, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance. This information should be used to continuously inform the decisions of commissioners, providers and clients of social services.
- The Social Sector Board has initiated work to develop a plan for implementing social sector data integration, including common standards. This work includes the design of institutions and processes to develop a comprehensive, wide-access data network for the sharing and linking of client-centred data accessible to commissioners, providers, clients and researchers of social services.
- Sharing government-held data with non-government providers would support innovative approaches to solving social problems. Where individuals give consent, government agencies should permit access to identifiable personal data so as to support the provision of innovative services.

This chapter highlights the opportunities to use data and analytics to create a learning system that increases the effectiveness of social services. A wide-access, client-centred data network and data analytics will support a range of devolved service models discussed in previous chapters. The social services system needs

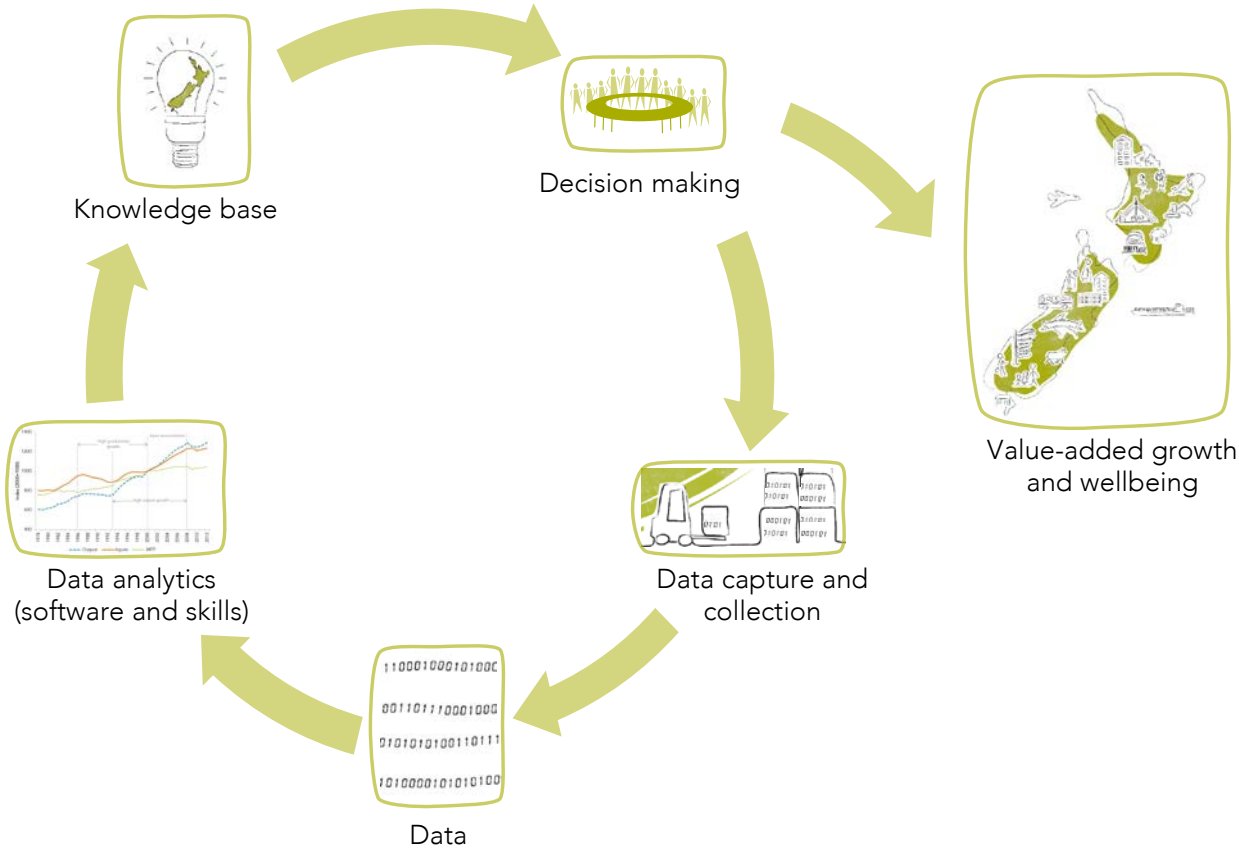
better information to support decisions made by the clients, providers, purchasers and commissioners of social services.

8.1 Data and analytics can transform the social services landscape

Data and analytics to support a system that learns

Information flows are central to a system that learns (Chapter 7). Broadly, a system that learns needs timely information on which clients are accessing which services, who is providing those services and with what effect. The broader and deeper the scope of the information, the more powerful will be the learning opportunities. The information needs to be collected, linked, configured and analysed in a continuous process that creates value through learning feedback loops (Figure 8.1).

Figure 8.1 Data value cycle



Source: OECD, 2014; Productivity Commission.

A wide-access, client-centred data network and analytic capability will be the foundation for providing information for system-wide learning. This infrastructure will allow data users to follow the pathways of social services clients in detail and over time as they access or interact with different services. Data users will be able to use information at very different scales (from client-specific assessments to system-wide analysis), and for operational, service development, evaluative and commissioning purposes. This data network should be able to support the full range of commissioning approaches and service models discussed in Chapters 5 and 6 and meet a wide range of needs.

The network should build on existing capabilities and information systems, by building network connectivity standards and protocols that allow the linking and sharing of data for a variety of uses in a distributed system. The network architecture should be scalable and flexible enough to adjust to emerging needs (section 8.5)

Chapter 7 identified that devolved commissioning arrangements and service models are well suited to stimulating diversity and innovation in a social services system that learns. Shared, transparent information

on service performance, together with making providers accountable for achieving outcomes is required to spread new ideas across a devolved system.

More effective data networks and data analytics will support improvements in the design, provision and use of social services.

- Clients will be able to make better service choices using information on the quality and effectiveness of services.
- Commissioners of services and providers will have a more holistic view of client circumstances and of available services and be able to assemble a more effective mix of services to meet client needs. This view may focus on individual clients or on groups of clients with similar characteristics and prospects. With more devolved decision making and control over budgets, this will help solve the problems typically addressed by integration initiatives (Chapter 10).
- With better designed information systems, providers will be able to capture client-centred data once for operational, monitoring, evaluation and audit purposes.
- Providers will be able to customise services to better meet the preferences and needs of clients. The same information systems may be used to make it easier for clients and providers to communicate with each other.
- Providers and commissioners of services will be in a better position to demonstrate the value-added from services both on average and for particular clients. Commissioners of services will be able to match service levels to client characteristics and set prices according to the cost of providing effective services for different types of clients. This will help manage *cherry picking* and *parking* (providers focusing on the clients for whom it is easy to achieve desired outcomes while providing no, or a low level of, service to others) (Chapter 6; Appendix F).
- Better data networks should greatly reduce the cost and increase the power of service evaluations (using economies of scope and scale in the use of data).
- Evaluators will be able to carry out more performance monitoring and evaluation in real time and so promote continual adaptation in services to better meet client needs. Providers will be able to compare their performance with other providers of similar services and identify the scope for service improvement.
- Better and more transparent information on performance will make it difficult for providers and other decision makers to justify services that do not work, or that fall short of the best return on investment (ROI).
- Funders will have better information on the outcomes of services as a basis for payment of providers. Payments for outcomes will leave more room and provide stronger incentives for new and existing providers to experiment and innovate in pursuit of improved performance (Chapter 12).
- Commissioning organisations will have better information to set prices for services at a level that covers the economic costs of provision (Chapter 6).
- Researchers and evaluators, using suitably anonymised data, will have better information by which to identify effective interventions and deploy resources across the social services system.

F8.1 Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design, commission and provide effective services. Better data and data analysis will help target resources to have a greater impact on improving outcomes.

A social services data network will build over time in terms of client histories and the scope of social services included. This will continue to increase understanding about the effects of different services and different providers on outcomes, both generally and for particular clients.

The power of data technology and analytics

Modern data technology and analytics have greatly increased the capability to inform the decisions made by clients, providers, purchasers and commissioners of social services.

Innovations over the last 40 years include:

- high-volume parallel processing of huge datasets, that allows large numbers of users to access data in real time;
- vastly increased capacity to analyse the content of large, linked datasets for a wide range of uses;
- cheap and ubiquitous electronic networks that enable data users to collaborate, communicate, coordinate or mobilise at scale globally on matters of mutual interest; and
- devices that capture personal data in real time – for instance through mobile phones, watches and wearable fitness monitors.

> Taken together, these innovations provide opportunities to build new kinds of knowledge-based tools and to adopt different kinds of business models … (Mansell, 2015, p. 24).

Sharing and linking data from a variety of sources greatly increases its value. "The scope of what you can know increases as you add more data together. So joining data can increase value by increasing the scope of what you can know" (Mansell, 2015, p. 27).

Services in many parts of the economy have used data sharing and linking technologies for decades to continually transform themselves, though New Zealand lags behind international leaders (NZPC, 2014a). The retail industry, for instance, has used information and communications technology (ICT) to track inventories and supply in real time, integrate supply chains across and within borders, set prices to respond to changing demand, and target marketing to customer segments. Online shopping has grown rapidly over the last decade. Parallel developments have been transforming the banking, finance, freight and air transport industries.

New Zealand examples of data-driven innovation in the social services

Some of these capabilities are already in place in some parts of the social services system. For instance, the Ministry of Social Development (MSD) has used its in-house benefits dynamics database as the backbone of its Investment Approach (Chapters 3 and 9; Appendix B). MSD is linking other data sources, including information from Child, Youth and Family service use, to increase the power of its analytics. The database allows real-time tracking of service performance as input into investment decisions. This has enabled MSD to identify and successfully channel services to previously under-served client groups, including youth and sole parents. Private sector services have been using similar client segmentation, testing and targeting of services for decades.

While MSD uses its own data systems for operational purposes and as a key tool to enable its Investment Approach, Statistics New Zealand has been implementing the Integrated Data Infrastructure (IDI) for research and evaluation purposes (Box 8.1).

Box 8.1 **Statistics New Zealand's Integrated Data Infrastructure**

The Integrated Data Infrastructure (IDI) is a research database consisting of anonymised, linked administrative data. The IDI contains individual-level administrative data from the Ministry of Education, the Inland Revenue Department, the Ministry of Justice, the Department of Corrections, Accident Compensation Corporation (injury data), MSD (benefit and student loans), the Department of Internal Affairs (births and deaths) and the Ministry of Business, Innovation and Employment (immigration and

tenancy bonds), as well as data from Statistics New Zealand surveys. Statistics New Zealand and the Ministry of Health are piloting the addition of health data to the IDI, initially for the purposes of the Treasury carrying out research.

The IDI is a relatively recent tool for the social sector. A prototype was created in 2012 and government invested in its expansion in 2013. Use of the IDI by researchers, both in government agencies and outside, has been growing rapidly.

The IDI is complemented by a central agency Analytic and Insights team located at the Treasury. The team's role is to undertake and promote research and evaluation using IDI to inform the Government's resourcing decisions and commissioning of services. It has used the IDI to undertake justice sector evaluations, analysis of vulnerable children and costing for projected expenditure.

Government agencies have told the Commission that, as experience with using the IDI grows, the potential for rapid turn-around and repeat evaluation of the performance of social service programmes is quickly materialising. One senior manager of research told the Commission, "We're only scratching the surface".

Source: Statistics New Zealand, sub. DR220.

The IDI is not set up for operational purposes. Other social services systems are using shared data operationally. For instance, the National Health IT Board is leading the development of a comprehensive, distributed data infrastructure in the health sector (Box 8.2).

Box 8.2 **National IT Health Board**

The Government established the National IT Health Board in 2009 to provide strategic leadership on information systems across the sector. Since its inception, the Board has carried forward a range of complementary initiatives, including:

- building the capacity for patients and their treatment providers to have a core set of personal health information available electronically, regardless of the setting in which they access health services;
- setting up the capacity for *patient portals* that give patients electronic access to their personal health information;
- rolling out a national electronic prescription service;
- developing networking and inter-connectivity standards that allow information exchange between existing private health electronic networks (such as those used in general practice);
- developing a common architecture for national and regional information systems and infrastructure;
- establishing the ConnectedHealth brand as an umbrella term for the IT (information technology) environments that securely share information;
- harnessing clinical leadership in the development of health IT initiatives; and
- supporting the New Zealand Health IT Cluster, an alliance of software and solution developers, consultants, health policymakers, health funders, infrastructure companies, healthcare providers and academic institutions (National Health IT Board, 2015).

The National IT Health Board has taken a "guided market approach" to data-driven innovation that includes

> co-production and co-design of health care information solutions or eHealth solutions by consumers and health care providers [and] … direct access for health consumers, including the development of patient portal and ultimately consumer apps that use all or part of their health information record. (NZDFF, 2014, p. 35)

According to Ian McCrae, chief executive officer of IT company Orion Health, one of the key advantages that New Zealand gained in innovation in health IT was the launch of the National Health Index number (the unique patient identifier) in the early 1990s (Riley, 2014).

Some non-government social services providers are also exploring the possibilities of client-friendly, data-driven innovation. Auckland City Mission told the Commission that organisations such as MSD should consider using smart phone applications similar to banking apps. Clients would not then need to visit agencies and tell their stories time and time again. This way, clients would control their data and could give consent as appropriate. Auckland City Mission found that clients will almost always give consent to sharing their data. Yet the National Beneficiaries Advisory Group told the Commission that people outside the main cities and older people were less likely to use smart phones or the internet to interact with providers and government agencies. Over time, familiarity with digital technology is likely to spread more widely as costs fall and use becomes the norm.

Inquiry participants drew the Commission's attention to other examples of data-driven innovation:

> The RealTime Feedback project being run by the Health and Disability Commission is an example of using technology to obtain data (in this case on client satisfaction) in a way that is engaging for clients, automates data entry and draws on centralised skills in analysing and feeding back data in real time. (Youth Horizons, sub. 67, p. 8)

Te Pou Matakana, one of the Whānau Ora commissioning agencies (Chapter 13 and Appendix C) has developed a "Social Calculator" tool that helps it to identify the benefits of its Whānau Direct initiative compared to different and multiple government interventions that could have been involved in the absence of Whānau Direct (pers. comm., 4 June 2015). Whānau Direct offers funding to whānau and individuals to make investments to achieve specified outcomes.

The social services have been slow to use data and analytics to innovate

While examples of data-driven innovation in the social services exist, the social services have, in general, been slower than many other service industries in taking up the opportunities. Tens of thousands of transactions take place daily between social services clients and providers, each generating information that may or may not be recorded electronically. Yet OECD (2014) noted that while industries that use data and analytics intensively experience a productivity gain of 5– 10%, industries in the public sector, healthcare, and science and education have made relatively weak use of the opportunities:

> These sectors employ the largest share of occupations which perform many tasks related to the collection and analysis of information and which are becoming increasingly data-intensive. However these tasks are also still performed at a relative low level of computerisation. The targeted deployment of data analytics could thus boost efficiency gains even more in these sectors. (p. 19)

Consistent with this judgement, the Social Sector Trial leads submitted: "Where there are data-capturing systems, they tend not to be consistent in what they record …" (sub. 126, p. 23). Even where information is adequately captured, data infrastructure and analytics mostly do not match the sophistication and innovative power of those used in other service industries:

> The social services system is vast and there is currently no comprehensive knowledge base from which learning is kept. Agencies all have knowledge and learnings as do learning institutions and service providers but this knowledge is often vested in units and people in fragmented ways and is not consistently applied or shared. (Social Sector Trials leads, sub. 126, p. 24)

Health services have relatively well-developed data and analytic systems compared to other social services (NZDFF, 2014). For instance, general practitioners can analyse data to determine treatment needs, access patient histories, make patient referrals and receive and analyse the results of tests and specialist

investigations electronically (National Health IT Board, 2015). Yet, according to the Home and Community Health Association, community health lags behind in the use of data and analytics:

> a) There is much opportunity for improving efficiency and effectiveness for organisations and clients through further use of technology. Technological advancements include rostering and client management, use of cellphone and app technology for support workers, further use of GPS [global positioning system], use of remote client health monitoring and use of medical alarms.
>
> b) We need greater connectivity around New Zealand to allow community nurses to link and input, no matter where they are, to shared records and other centralized data stores.
>
> c) Many of our providers simply don't have the capacity within the contract price to develop their technology.
>
> d) In some instances secondary care technology is running behind community services technology and its incompatibility frustrates community innovation. (sub. 114, p. 14)

Similarly, the Wise Group, which specialises in community-based mental health services, submitted:

> There is an urgent need to identify a subset of information about an individual client than can be shared, the development of a protocol about how that information should be managed and the development of a central mechanism to manage the sharing of information. (sub. 41, p. 4)

Alliance Health Trust Plus, a public health organisation which, among other roles, commissions health services for Pacific peoples, noted "it is often difficult to capture the extent to which our providers provide additional support to families" (sub. 119, p. 10). Alliance Health argued:

> Investment in IT solutions that are 'user friendly' for frontline staff that provide up-to-date data collection and timely analysis is essential for guiding the decisions made by commissioning agencies. It also allows providers to make evidence based judgements about their models of care and informs business planning processes (eg: number of FTEs required). (p. 3)

Even so, health sector community providers are probably more aware than other community social services providers of the potential use of data analytics, because other parts of the health system have relatively better developed data infrastructure.

Schiff et al. (2015) estimated that, in 2014, data-driven innovation generated $2.4 billion of value-added in the New Zealand economy. Of this, $260 million was attributable to health, education and social services industries. The proportion of gross value-added attributable to data-driven innovation in these industries was substantially below the proportion for some other service industries (eg, finance and insurance; and transport and logistics) and lower than across the whole economy.

F8.2 Social services have lagged behind many other service industries in adopting data-driven innovation.

Reasons for slow adoption of data-driven innovation in the social services

One reason for late adoption of up-to-date data technology and analytics is the small size and not-for-profit (NFP) form of many social services providers. Many providers find it difficult to fund the investments required, or to acquire the skills to use them:

> Significant barriers to the use of information technology and data include the cost of developing and provision of solutions and the bespoke nature of IT tools often limiting the application and consistency of the use of these tools. This also limits the quality and depth of data available to learn from.
>
> There is an IT knowledge deficit among many NGOs [non-government organisations] which needs to be addressed to make the most of new technology to improve efficiency and effectiveness. This can be expensive for NGOs so finding ways of sharing information and systems that is supported by funders is important. (Social Sector Trial leads, sub. 126, p. 19)
>
> In general, community organisations struggle to access the funding to build adequate and responsive client management systems, websites and reporting systems that will allow them to deliver the more professional, visible and accountable social services that government agencies are now seeking. (Palmerston North Community Services Council, sub. 125, p. 11)

Workbridge submitted: "Government agencies need to be aware that community organisations have limited resources to dedicate to IT systems for the purposes of data collection, and that introducing new systems will require supporting infrastructure, training and implementation" (sub. 102, p. 15).

A more fundamental reason for slow adoption of new technology is that the collective benefits of a wide-access, client-centred data network and analytical capability are far greater than the sum of benefits that would be gained by each provider pursuing their own solution (Mansell, 2015). In many private sector service industries this problem has been ameliorated by successful adopters of new technology growing in scale at the expense of laggards (NZPC, 2014a). Successful NFP social services providers, because of capital constraints and lack of tradable ownership claims, often lack scope to grow in size through increasing their share of service provision or by merging with or taking over other providers (Appendix F).

Historically, the collection of operational data within departments and within particular services administered by departments has created strong barriers to sharing client-centred data across the social services. In many cases, providers and commissioning organisations have found it easier to accept the limitations of current data-sharing practices, rather than work to realise the benefits of greater data sharing.

A data network covering many dispersed social services providers requires a collective solution to establishing standards for data sharing as well as meeting the development and setup costs. The Government has a strong interest in obtaining the benefits of a wide-access, client-centred data network, given its role as the main funder of social services and its interest in getting better outcomes for available resources (section 8.3).

F8.3 The social services system has many dispersed and small providers. Government agencies and social services providers need to collaborate to establish standards for data sharing and to develop a wide-access, client-centred data network.

8.2 New Zealand Data Futures Forum proposals

Data-driven innovation in the social services requires the linking and sharing and use of personal information across the points at which clients engage with providers. This increases the potential for harmful use of personal information and so raises significant issues of privacy and trust.

New Zealand Data Futures Forum proposals

The Ministers of Finance and Statistics established the New Zealand Data Futures Forum (NZDFF) "to explore the potential benefits and risks for New Zealand of sharing, linking and using data" (NZDFF, 2014, p. 6).[83] In its report, NZDFF recommended making progress in three areas.

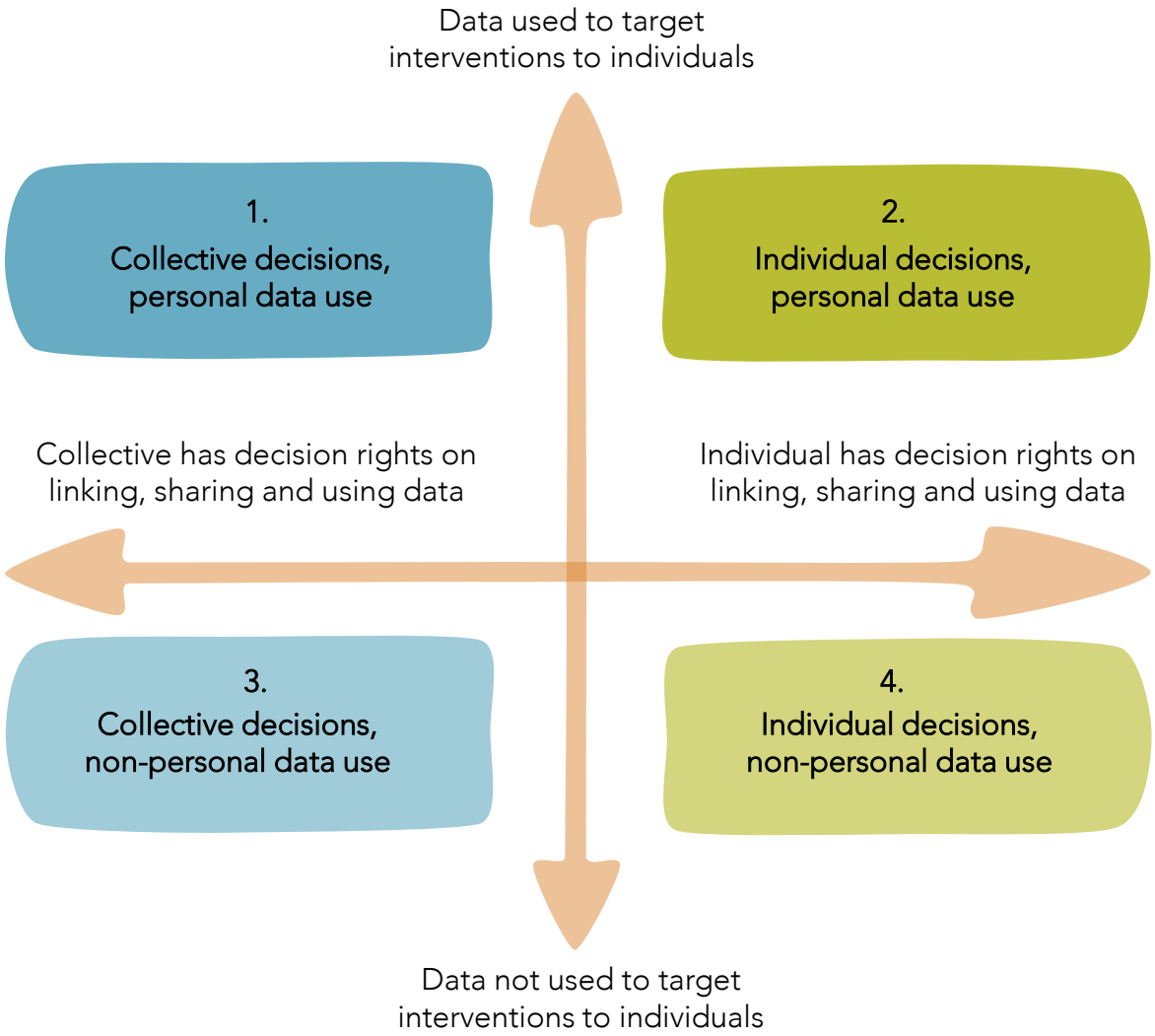
- Getting the rules of the game right by establishing an independent data council to act as guardians of the data-use ecosystem. The council would advise government and data users and develop best-practice guidance. NZDFF also recommended a review of information legislation.
- Supporting catalyst projects that use data to innovate and create value. "Trusted data use for the social sector" (p. 34) is one possible project recommended by NZDFF.
- Establishing the foundations of a data-use ecosystem in which inclusion, building trust and giving individuals control over the use of their personal data leads to innovative data sharing that builds value; and this, in turn, drives further sharing of data. Inclusion involves raising public awareness and capability in finding, using and understanding data and the data environment and its potential to transform lives.

NZDFF (2014, p. 17) argued for a "more collaborative, open and protected data future" and sketched out different scenarios to show how the principles of value, inclusion, trust and control could be applied in practice (Figure 8.2). Quadrants 3 and 4 cover the linking, sharing and use of de-identified data such as through the IDI. Quadrant 2 covers situations where individuals have the right to decide whether data that

[83] NZDFF members were a mix of public sector, private sector and academic leaders.

identifies them can be linked, shared and used to target interventions. Quadrant 1 covers situations where an agency or agencies have the right to decide whether data that identifies an individual can be linked, shared and used to target interventions to that individual. An example in quadrant 1 would be a hospital sharing data with a child protection agency to identify a child at risk of abuse and to target interventions to mitigate that risk.

Figure 8.2 Different data-use scenarios for protecting privacy



Source: NZDFF, 2014; Productivity Commission.

Notes:

1. "Collective" could include, for instance, a government agency or agencies.

NZDFF (2014) argued that organisations should minimise the mandatory use of identifiable, personal data (quadrant 1) "…and, wherever possible, move either to an arrangement where individuals have more say over the use of personal data (quadrant 2) or to one where data is anonymised or de-identified and used in a non-personal way" (quadrants 3 and 4) (p. 23). NZDFF further argued that government's social services agencies "…need to do more to ensure that trust, inclusion and control underpin the use of social sector data. This sector needs to put strategies in place to ensure sustainable trusted and safe data use" (p. 34).

NZDFF also recommended:

> The government agencies responsible for the delivery of social services (Justice, Health, Education, Social Development) should better coordinate their operational data-sharing to avoid duplication, improve safety and coordinate expertise….Agencies need to ensure that operational sharing is done with appropriate collective oversight and protections, such as by making use of the proposed data council, or find ways to enable greater individual control over the uses of data…

> The state sector's operational data should be made available in anonymous form via Statistics New Zealand's Integrated Data Infrastructure (IDI), or some other form of trusted, safe data-sharing mechanism, to improve transparency and the ability for researchers, communities, iwi and others to analyse data for themselves. (NZDFF, 2014, p. 34)

In addition, NZDFF argued that the Government should form partnerships with NFPs, academics and the private sector

> …to link data to better understand social challenges, and this should be done in safe and trusted ways – not for individual targeting purposes, but to learn and measure needs and outcomes…[this] enables co-production of insights, and has the potential to increase accuracy and relevance, create reciprocal solutions, as well as support inclusion and trust. (NZDFF, 2014, p. 34)

NZDFF uses an example of how data sharing and the use of trusted community brokers could help provide better services for transient families and ameliorate adverse effects of transience on children's outcomes.

Government response to the New Zealand Data Futures Forum proposals

In February 2015 the Government endorsed the four principles proposed by the NZDFF (Cabinet Economic Growth and Infrastructure Committee, 2015, 11 February). In July 2014 it agreed to establish a working group to build a cross-sectoral Data Futures Partnership (DFP) to:

- progress catalyst data-use projects;
- champion data-use innovation;
- promote a broad acceptance among the public of data sharing;
- identify key problems facing the data-use system; and
- find solutions to systemic problems limiting trusted data-use.

Statistics New Zealand will provide a secretariat to support the working group and the DFP (Cabinet Economic Growth and Infrastructure Committee, 2015, 29 July).

The Commission considers that the NZDFF principles provide a sound basis for the successful sharing of personal data across social services agencies.

R8.1 Government social services agencies engaged in sharing personal data should adhere to the four guiding principles of value, inclusion, trust and control proposed by the New Zealand Data Futures Forum.

8.3 Building and using a better data infrastructure and analytic capability

This section first describes the need for a collective solution to building a better data infrastructure for the social services. It then looks at how a better data infrastructure and analytics can:

- contribute to more effective social services under different commissioning and service delivery approaches;
- expand the scope and increase the depth of an investment approach to resourcing social services; and
- cost-effectively capture data from many small and dispersed social services providers, helping to integrate them into a learning social services system in a transparent way.

The section briefly discusses governance arrangements; the issues of data security, privacy and trust.

The potential value to Māori of improved data sharing and analytics is discussed in Chapter 13.

A wide-access, client-centred, data network needs a collective solution

A wide-access, client-centred, data network involves strong economies of scale and scope as well as network effects – the wider the range of data shared and the more people who share data, the greater the potential value. The broader the scope of a data network, the greater the power it will have in supporting innovation in operations and commissioning. The combining of disparate sources of data at the client level allows a much better understanding of likely outcomes and of which services are likely to be most effective for particular clients. This, in turn, allows for better evaluation of the impacts of different interventions. The marginal costs of adding additional data and users are low.

These conditions point to a role for government in helping to establish a wide-access, client-centred, social services data network. The returns from an investment of this sort would depend on a range of factors, including other necessarily experimental changes that the Government made in the commissioning of social services (Chapters 5 and 6). While the Government could not predict what the returns would be over time, it could be confident that establishing a wide-access, client-centred, data network would be a step towards higher returns from the use of social services resources.

The Social Sector Board (SSB) has commissioned work to develop a plan for implementing social sector data integration, including common standards (Cabinet Economic Growth and Infrastructure Committee, 2015, 11 February). [84] This work provides an opportunity to look further ahead to the development of a wide-access, client-centred, social services data network. In particular, this work is likely to involve the development of a set of protocols and standards that non-government and government entities could use to securely share and link social sector information on an "as required" basis. It would build progressively on existing social sector data networks and capabilities, prioritising development in those areas with the largest opportunities to improve the effectiveness of the social services system.

Protocols would need to be developed that matched data security and privacy arrangements with the purposes for which data is being shared. Following the NZDFF principles, personally identifiable data should only be shared for defined purposes, and generally only with informed consent.

For example, the Canterbury Information & Management Group has developed HealthSafe, a framework of policies and processes for the use and management of health information across the Canterbury health system. The framework sets out de-identification protocols and the ways in which identifiable and non-identifiable data can be shared according to the type of information and its source, and its use, ranging across direct patient care, clinical audit, service management, monitoring, planning and academic research. The framework also establishes processes for approving the use of data in particular circumstances (Pegasus Health, pers. comm.,16 June 2015).

Following a principle of informed consent for the sharing of personal data will not always be straightforward in the social services context. Personal information held by providers and government agencies will often include information about an individual's family/whānau. For instance, the Office of the Auditor-General (OAG) commented in its report on Whānau Ora: "Officials we spoke to told us that privacy issues concerned some whānau. The [whānau] plan might include personal and sensitive information that might not normally be brought together or not normally given to Te Puni Kōkiri" (OAG, 2015, p. 34). The OAG described how these concerns were managed to protect privacy by each household keeping some of their plan private from other households.

Protocols for sharing identifiable data will need to cover circumstances where the data held covers family members of the client.

[84] The Social Sector Board consists of Chief Executives from the Ministries of Social Development, Education, Health, Corrections, Justice and Pacific Island Affairs, Te Puni Kōkiri, Statistics New Zealand, the New Zealand Police, and Sport New Zealand.

R8.2 The Social Sector Board should initiate a project on social sector data integration that includes the design of institutions and processes to progressively develop a comprehensive, wide-access, client-centred data network. This network should be accessible to commissioning organisations, providers, clients and researchers of social services.

Data and analytics for different commissioning approaches

Any future social services system is likely to involve a mix of high-level designs (Chapter 5), with some commissioning decisions being taken by government social services agencies, some devolved to other national or regional bodies, and some possibly assigned to social insurers. The future will also inevitably see a range of service models being used (Chapter 6). A wide-access, client-centred data network needs to be flexible enough to allow the sharing, linking and use of data across different commissioning arrangements and service models. The broader and deeper the scope of a data infrastructure, the more powerful and dynamic will be the innovation and learning that it supports.

Depending on the approach, shared data would help commissioners of social services to identify prices for different services that will allow efficient providers to cover their full economic costs, while achieving good outcomes for clients (Chapter 6). Intermediaries, such as client advisors or service-user websites, could also use the data to provide information on service quality and effectiveness to help clients to choose, where they have a choice of services.

Fortunately, fast-evolving modern electronic networking, information-sharing technology and analytics can be configured with great flexibility, through distributed systems supported by network connectivity standards (OECD, 2014). This is already being demonstrated by health information systems in New Zealand (Box 8.2). The Impact Collective has proposed such an approach for services to address domestic violence (Box 8.3). Modern data infrastructures make it more possible than in the past to combine devolved commissioning and client-centred delivery of social services with system-wide learning.

Box 8.3 A nationwide integrated data system to help address domestic violence

The Impact Collective (sub. 130) proposed a nationwide integrated system involving multiple agencies, profession, communities and individuals working collaboratively together to address domestic violence and child abuse. The proposal is a response to the Impact Collective's assessment of the current situation:

> There is no consistent data collection or means of comparing what is happening between regions and no accurate data or ongoing mechanisms from which to measure change/outcomes. (p. 21)

As part of an integrated system, an integrated data system (with suitable protections) would enable cross-agency sharing and national analysis of information:

> The Integrated System would include local information and national information management systems underpinned by a set of national and local outcome indicators, data dictionary, standardised data sets, and system and service performance measures ie response times. It would enable cross-agency sharing of information throughout the Integrated System and to provide a continual flow of standardised data for performance and outcome monitoring. (p. 22)

The information collected would, with other evaluative activity, "enable a formalised continuous improvement process to be established…" (p. 22).

The Impact Collective also drew on the Glenn Inquiry's finding that available information systems and databases do not lend themselves to cross-agency sharing of information (Glenn Inquiry, 2014). With multiple agencies involved in providing services and clients moving between locations, the ability to share information is vital to providing effective and safe services. The Impact Collective proposed that, at the regional level, the information system would be used as a case management system for

"multi-agency case management processe[s]" such as those run by the Family Violence Interagency Response System (p. 22).

The Impact Collective's proposal for an integrated data system is an example of backbone support that is a key condition for a successful collective impact approach to service integration (Chapter 3).

A devolved social services system could yield better outcomes, with a common (transparent) view on how the sector is performing. A wide-access, client-centred, consent-based data network could become a key enabler of a creative and adaptive social system.

Broadening and deepening the investment approach

MSD's Investment Approach has so far proved to be an effective way of deciding where best to target resources, which service designs to use and for which types of clients (Chapter 3; Appendix B). Yet, as currently configured, it has a focus on a relatively narrowly defined outcome (the present value of future income support for current and recent clients) and a relatively narrow range of investment opportunities (the services MSD either provides in-house or contracts out).

Chapter 9 discusses the potential to expand the investment approach to cover both a wider range of outcomes and a wider range of investment opportunities. This expansion will require linking individual client data held across different social services agencies, possibly including health, education, social development and justice. Data with wider scope will generate more accurate individual-level predictions, and lead to better targeting of services and better measurement of the value added by services. The NZDFF recommended increased data sharing among government social services agencies, while at the same time moving to a more consent-based approach (section 8.2).

The Commission is aware that the SSB has initiated work on data sharing to support an investment approach across social sector agencies as part of work on social sector data integration. This would involve sharing de-identified data for the purposes of programme evaluation; it could also involve sharing identifiable personal data for operational purposes such as assigning clients to the services that work best for them. Statistics New Zealand made the point that in many cases de-identified data would better match the business and analytical purposes of social sector agencies (sub. DR220). The Commission considers that there is a role for both identified and de-identified data; but where de-identified data suits the purpose it should be preferred.

R8.3 The Social Sector Board should undertake a project to share client-level social sector data to increase the scope, power and accuracy of the Government's investment approach to funding and targeting social services.

Principles similar to those in the current investment approach could also be used under more devolved commissioning and service models. Data analytics and a data network that collects the right data on services, on the clients who use services and on the outcomes that eventuate for these clients, hold the key to coupling the power of the investment approach to a much more devolved system. Properly set up, this approach could incentivise a diversity of new ideas and new approaches.

Commissioning organisations and providers could categorise clients into segments in different ways, based on a range of demographic and historical data for that individual (eg, whether the family or individual has been notified to Child, Youth and Family; health and education history; teen pregnancy; or interaction with the benefit system). This would enable probabilistic forecasts of outcomes (and some quantifiable elements of the outcomes, such as future fiscal liabilities) for many different types of clients.

Together, data of this type will help commissioning organisations and providers, either as a result of chance variation in services offered, or through a random controlled trial (RCT), to identify the impacts of services. Through links to provider data, the commissioning agency should be able to identify the cost of services at

the client level, and so calculate an ROI. This in turn would allow commissioning organisations to shift resources towards the more effective services.

The Commission is attracted to the idea of organising and configuring at least some social services along these lines. The combination of clearly specified outcomes, much greater freedom and opportunity for providers to design and deliver their services, and providers supplying data on what services have been delivered to which types of client is a very powerful one. It would generate far greater diversity of ideas for new services and a means of testing their effectiveness. Diversity and learning what works are key components of a system that successfully learns to perform better in the face of complex and difficult challenges (Chapter 6).

F8.4 Modern data technology and analytics can support a devolved approach to investing in social services, by collecting and analysing data on service costs, client participation in services, and client outcomes.

Capturing data from many small and dispersed providers

Many small social services providers receive funding from one or more government social services agencies, in total producing a large number of small-scale contracts. It is rare for these services to be well-evaluated or even for basic data on client participation to be adequately captured (Chapter 7; section 8.1). A common social-sector-wide data network that allowed providers to supply data electronically at low cost and in standardised format on client participation and their programme costs would contribute to overcoming these shortfalls in the evidence base. Client data linked across social sector agencies would, in turn, allow easier identification of the outcomes of service participation and low-cost, real-time evaluation of service effectiveness:

> At the simplest level data collection could be improved by having a common IT system for service providers that captures basic data consistently and comprehensively. This would require investment into IT tool development. There would also need to be significant effort to improve data sharing arrangements and clear transparent guidance… Sharing systems and learning across providers is another way that they [providers] can be supported to undertake more robust evaluation and monitoring… (Social Sector Trials leads, sub. 126, pp. 23–24)

One example of what can be done to evaluate services using linked client and administrative data is the current evaluation of the Family Start programme (Box 8.4). Another example, the Youth Service (Chapter 3 and Appendix B), was set up from the beginning with an IT system that allows providers to upload data on client participation and outcomes. There are just over 50 providers nationally. The data is used by MSD almost in real time to monitor the performance of providers in engaging clients and achieving outcomes. Providers receive regular feedback on their performance, and the information is used to determine the payments that providers receive. In the future, it should be possible to extend this approach more widely across social services programmes (Ministry of Education, sub. DR207).

Box 8.4 **Using linked client and administrative data to evaluate programme performance**

The Ministry of Social Development (MSD) and the Auckland University of Technology (AUT), with input from other academic institutions, are currently undertaking an evaluation of the impact of the Family Start programme (described in Chapter 2) on outcomes for vulnerable children.

The study links data captured by providers on families participating in Family Start with administrative Integrated Child Data held by MSD. There are 32 providers nationally. The data covers family benefit receipt; involvement with the care and protection, youth justice and corrections systems; educational enrolment and attainment; health information; and births and deaths registration. This data will eventually be available through Statistics New Zealand's Integrated Data Infrastructure (IDI) (Box 8.1). The study and the future use of the data were approved by the National Ethics Advisory Committee (a statutory committee set up to advise the Minister of Health).

Family Start was expanded over the period 2005 to 2007, being progressively phased in to different geographic areas. The study is using these differences across geographic areas to identify the impact of Family Start on children's outcomes recorded in the administrative data. These include, for instance, immunisation and attendance at early childhood education, hospitalisation, contact with Child Youth and Family, findings of physical abuse and neglect, and mortality.

The results of the Family Start evaluation will be available in late 2015.

Source: Ministry of Social Development.

Statistics New Zealand noted

> ..it is essential to improve the quality of administrative data in the social sector, if it is to be used to solve complex policy questions and drive operational decision-making. …there are significant opportunities for efficiency and value gains across the social sector from greater use of administrative data. (sub. DR220, p. 1)

Other participants emphasised the need to make data collection cost effective for providers and for providers to receive analysed data back in return for their efforts (Rural Women NZ, sub. DR191; Volunteering New Zealand, sub. DR161; Home and Community Health Assn, sub. 192; Ministry of Education, sub. DR207). Providers frequently told the Commission about their frustration with supplying data that appeared not to be used by their funders, and receiving nothing back in return. Other participants pointed out the value to be gained if funding agencies could provide additional data to contextualise their service design and performance data (Presbyterian Support, sub. DR186).

The Cross Government Accreditation Working Group (CGAWG) was set up to coordinate the approaches of separate government agencies to accreditation of social services providers. One barrier to CGAWG's work is the lack of a common IT system across government social sector agencies (sub. 132). CGAWG (sub. 132, p. 3) noted "…the burden of compliance extends well beyond accreditation: specifically accreditation, monitoring and reporting require large amounts of provider resource (staff, time and tools)".

CGAWG argued for:

> One IT system across the social sector agencies for accreditation, funding, planning and contracting
>
> a) One New Zealand Business number for providers
>
> b) Sharing accreditation information
>
> c) A portal for accessing information
>
> [while noting as barriers]
>
> a) Cost of cross government IT solutions
>
> b) Privacy of data – needs to be carefully managed
>
> c) Trust – all parties need to trust the process and delivery
>
> d) Risk management. (sub. 132, p. 3)

While the CGAWG proposal does not extend to the collection and analysis of client-level data for the purposes of programme evaluation, some obvious synergies in the two purposes exist. Government social services agencies should further investigate these synergies.

Presbyterian Support submitted:

> As a first step, we recommend development of a standardised base set of results measures which can then add-on any specific requirements – across all Ministries. We would also recommend accessible cloud-based dashboard reporting tools which enable NFP providers to utilise their own databases rather than expending valuable resources in complex recording and reporting mechanisms. (sub. DR186, p. 3)

R8.4 The Social Sector Board should design and oversee the implementation of a system for government social services agencies and social services providers to capture information on their clients and services in a consistent way. This should allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

Governance arrangements

The Commission considers that, in any exercise to link personal data across the social services, the SSB should establish governance arrangements that comply with the NZDFF principles. The arrangements should help secure a safe and high-trust environment in which personal data can be shared for operational, evaluative and commissioning purposes. The recently-established DFP (section 8.2) could play a role.

R8.5 The Social Sector Board should set up governance arrangements that:

- secure confidence and trust in the sharing of data across the social services; and
- provide a source of independent advice to government and data users on proposals for data linking and sharing across the social services system.

Data security, privacy and trust

The viability of an expanded model of data sharing and linking across the social services following NZDFF principles depends on the willingness of often vulnerable clients to consent to sharing their personal data. Seeing and getting value from sharing data is one of the key principles that encourages client consent (NZDFF, 2014). This approach is already working in areas such as accounting software (Xero) and customer-managed relationships (MyWave) (NZDFF, 2014). There are many international examples (see Mansell, 2015). In New Zealand, the National IT Health Board has successfully put in a place a system where patients are willing to have their data shared electronically across a wide range of settings where they access healthcare (Box 8.2).

Under the NZDFF proposals, clients and citizens would have more control than at present over the use of their personal data. Government agencies, other corporate entities and individuals would generally only have access to personal data for which individuals have given fully-informed consent, and then only for agreed purposes and in an agreed form. Researchers and analysts could use de-identified data without the consent of individuals, as is currently the case with data in the IDI.

The Privacy Commissioner submitted:

> Information about identifiable individuals should be shared in a proportionate way and to the degree necessary to accomplish appropriate social goals. The tools that are in the law to do this should be used in a way that maintains trust and fosters continuing engagement between government and citizens. (sub. DR206, p. 2)

The Privacy Commissioner recommended a thorough privacy impact assessment of any proposal to share identifiable personal data and the development of robust processes to ensure information is appropriately managed. The Privacy Commissioner also warned:

> In cases where personal information is being shared with clients' consent, care needs to be taken to ensure that there are robust mechanisms in place to allow clients to 'opt out' of their information being shared, without having their access to social services negatively affected. (sub. DR206, p. 5)

There will clearly always be some areas of social services, such as child protection, policing and corrections, where it is not always appropriate to seek consent to the sharing of personal data across government and other social services agencies. Where a child's safety is at serious risk, health professionals are likely to prioritise protection over maintaining privacy of information. Similarly, where an individual is experiencing a medical emergency that means they are unable to give consent, health professionals are likely to access,

without patient consent, relevant information they hold on the patient's condition. Social services agencies will need to develop agreed protocols to govern the sharing of such data.

Even so, some providers have told the Commission of their frustration that some government agencies, based on the agencies' interpretation of privacy law, are unwilling to share information with non-government organisations about clients. The providers believed that this refusal was based on an incorrect interpretation of the Privacy Act. Government agencies should review their interpretations, and clarify and publicise the provisions of privacy law affecting the sharing of data between government and non-government organisations serving the same clients. The Platform Trust submitted that the Privacy Act might need to be reviewed to take into account advances in technology that facilitate the easy sharing of data (sub. DR179).

The Privacy Commissioner has offered the assistance of his office to agencies involved with establishing an appropriate legal authority for sharing personal information (sub. DR206).

8.4 Data sharing and linking to support innovation

The flexibility provided by a wide-access, client-centred, data network would potentially allow easy entry of new providers and for existing providers to join up to address identified service gaps. This would help change the role of government social services agencies to be system stewards rather than system controllers. It would allow actors within the sector to drive more relevant, nuanced and successful innovation (Chapter 7).

Allowing consent-based data access to third parties would stimulate new kinds of solutions and faster adaptation and innovation. It is likely that third parties will identify particular client segments where they have innovative ideas on how to address difficult-to-solve problems (Mansell, 2015). This would remove government agencies' monopoly on data and provide a high-trust platform for developing new services.

The data infrastructure provided by the recently announced Apple Research Kit is an example of this approach. The Apple Research Kit allows a wide range of providers to build specific apps aimed at niche markets. For instance, the Fox Foundation, a charity, has been working on an app to find ways of tracking the symptoms of Parkinson's disease. The app "can measure someone's finger-tapping on an iPhone's screen …The phone's accelerometer studies gait and balance while the user is walking" (*The Economist*, 2015, p. 72).

Mansell (2015) proposes using consent-based sharing of individual data to find ways to address obesity:

> [Obesity] is a complex issue that involves multiple influences and outcomes (life style, health support, employment, etc.). There is a lot of research required and learning what works will likely indicate different solutions for different kinds of people. (p. 105)

The National Health IT Board is already building the opportunity for third-party providers to develop apps for use with personal health data (Box 8.2). As a shared data infrastructure develops, other government social services agencies will be able to draw from the National Health IT Board's experience.

Statistics New Zealand noted that "…there is potential to provide grouped anonymised information to third party service providers to help them design or improve services" (sub. DR220, p. 2).

F8.5 Where individuals give consent, government agencies could give third parties, such as non-government organisations and academia, access to identifiable personal data to support the development and provision of innovative social services.

R8.6 The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. Where individuals give fully-informed consent, this could include sharing their personal data held by government agencies.

8.5 Implementing better data and analytics

The design of a wide-access, client-centred, social services data network

A wide-access, client-centred, data infrastructure that shares information across social services organisations would support better service integration and targeting, more efficient service delivery and better and easier monitoring and evaluation of service performance. The data infrastructure design needs to encourage trust between system participants and achieve an appropriate balance between efficiency, data accessibility, data quality and privacy. The design should build in flexibility and scalability to learn from experience and adjust to future needs as they emerge.

The design of an efficient and effective wide-access, client-centred, data network is a specialised task. Both international and New Zealand examples of setting up such infrastructures show they are feasible, and can be both fit for purpose and cost effective.

The Estonian Government's X-Road (or data exchange layer) is a system that routes queries between independent computer systems. Each system, based on different technologies, needs an "adapter" to be able to send and receive encrypted information in the X-Road format (Bershidsky, 2015).

> The X-Road allows institutions/people to securely exchange data as well as to ensure people's access to the data maintained and processed in state databases.
>
> Public and private sector enterprises and institutions can connect their information system with the X-Road. This enables them to use X-Road services in their own electronic environment or offer their e-services via the X-Road. Joining the X-Road enables institutions to save resources, since the data exchange layer already exists. (REISA, 2015)

Bershidsky (2015) noted that "the distributed nature of the system makes it inherently more secure than if it had been centralized. The architecture also makes it possible to use legacy systems and databases in the public and private sector. Plus the system has been cheap."

Citizen access to the X-Road system requires a unique identifier. Estonian citizens have used either a national identity card, or an internet banking identifier (Ott, 2003).

In New Zealand, the National Health IT Board is overseeing data-sharing initiatives that include health service providers having access to a patient's personal health information, and patients having access to data about themselves that is held by providers. Private health electronic networks will be able to exchange information securely across networks, and third parties will be able to provide services that use personal health information (Box 8.2). The linking and sharing of personal health information relies on the use of the unique personal National Health Index number.

Building on current initiatives and learning from experience

The Commission considers that, through the Social Sector Board, the social services agencies should investigate the building of a wide-access, client-centred, data network across the social services. In doing so, they should consider, among other initiatives, what can be learnt from:

- the National IT Health Board's experience of sharing personal information in the health sector (Box 8.2);
- current work under way to link data, including personal data, held by government social services agencies; and
- the work being undertaken by the CGAWG to encourage the efficient capture of data for the purposes of monitoring and audit of non-government social services providers (section 8.3).

The design of a data infrastructure should allow for scalability and flexibility to learn from experience and to adjust to new opportunities that emerge. While a broad vision of future capabilities will be a useful guide, incremental trialling of successful smaller-scale initiatives will build confidence and momentum. Incremental implementation within a coherent vision will reduce the risk of large cost overruns and under-performance that have characterised many government investments in IT. Yet the vision needs to be clear about the outcomes sought and the potential range of data that will be captured.

Government social services agencies and other participants will need to have realistic expectations about the timeframe in which the benefits of investments in a social services data infrastructure will be realised. MSD, for instance, has taken 15 to 20 years to build the database that now underpins its Investment Approach. While Estonia's X-Road services supported only 8 million enquiries in 2004, the number had grown to 290 million by 2013 (REISA, 2015).

Getting the benefits of data sharing sometimes involves radical re-organisation of business arrangements as some providers take advantage of new opportunities and others fail to do so (Mansell, 2015). Past experience in other service industries, such as music recording, retail, taxis and publishing, shows that resistance to change is likely.

New social services data-sharing initiatives require transparent governance arrangements to maintain the trust and confidence of service clients, providers and citizens. Transparency will help clients to see the value in sharing data, be confident that they have a good level of control over the use of their personal data and trust that the risks are being well managed. The governance arrangements will need to fit with other social services organisational developments, for instance in the commissioning architecture (Chapter 5) and service models (Chapter 6).

Analytical and IT skills are in high demand globally (NZPC, 2014a). Their limited availability in New Zealand will act as a constraint on the speed at which a wide-access, client-centred, social services data network can be designed, progressively expanded and used. Statistics New Zealand told the Commission that it "is currently looking at how to build capability in big data, data science and analytics across government as part of its contribution to the Government ICT strategy" (sub. DR220, p. 1). Statistics New Zealand recommends a focus on long-term talent management and targeted capability development in data analysis and related disciplines, as well as improving the availability of skilled data analysts through education and immigration policies.

The Wise Group has identified limited availability of information skills as an issue that needs to be addressed in the health sector:

> [There is a need to] initiate a programme of work to continue to develop and foster 'information competence' through all levels of the health sector. (Wise Group, sub. 41, p. 4)

Government social services agencies need to develop strategies to increase analytic information and technology skills more widely in the social services.

Benefits of investing in a wide-access, client-centred, social services data network

An investment in building a wide-access, client-centred, social services data network will enable the social services system to learn and innovate and become more effective. Data and analytics will help channel resources to a diverse range of services and providers to improve outcomes for clients and get a better ROI. Commissioning organisations, providers and clients will be able to cost-effectively monitor and evaluate provider performance in real time, shaping choices about which services it is best to use and how to develop services to better meet needs.

9 Investment and insurance approaches

Key points

- The Ministry of Social Development's Investment Approach (MIA) is an attempt to increase the effectiveness of social services through better investment and targeting of investment (Chapter 3). It is also about providing information and incentives to support early intervention, rather than waiting for a crisis.
- The MIA applies investment and insurance tools to active labour market programmes. It prioritises clients and selects interventions based on the expected reduction in future welfare liability (FWL). This liability is a proxy measure for future net social benefits. While the proxy is imperfect, the MIA is a significant improvement on traditional approaches.
- FWL identifies the people for whom the gains might be greatest, but is insufficient to identify effective interventions. Reliable information on interventions, including their cost and effectiveness, is also essential to any investment approach.
- There is scope to refine the MIA and to apply it more widely. Bringing in a wider set of costs and benefits would improve the alignment between decisions based on an investment approach and those offering the highest social return on investment.
- A further extension to an investment approach is to assign the financial risks associated with poor social outcomes to organisations that are better placed than government to manage and reduce those risks. Such an "insurance approach" might offer strong incentives for timely and value-adding interventions.
- The MIA is a top-down approach to prioritising investment that selects from a menu of interventions and matches them to client groups to get the best return on investment. A more devolved approach to investing in social services would better encourage innovation in client-centred services.
- Social insurance is attractive in theory, yet challenging in practice. It takes a long time to design and establish a social insurance system, and transitioning to a new system would likely be difficult. During such a transition, measures that could be implemented more quickly and offer earlier social returns might get insufficient attention.
- The Commission is not recommending the wide extension of social insurance in New Zealand. A more promising model is a combination of a fuller (cross-agency) version of the investment approach, a devolved architecture and client enrolment. Chapter 10 investigates such a model.

"Prepare rather than repair." A simple and catchy idea: that well-designed and targeted early interventions can reduce or eliminate adverse consequences at a later date (Chapter 2). Ideally, individuals, their families and the social services system should act whenever they expect net benefits over time. But that will only happen if the relevant parties have the information and resources required and face the right incentives.

Further, the social services system will be most effective if decisions about what services are provided, who they are provided to and when they are provided, are made so as to maximise the net social benefit from the funds expended. This requires a common measure of social benefit that applies across the social services system. The Government's investment approach is a first step towards such a measure (section 9.1). This approach can be usefully refined and extended in a variety of ways (section 9.2).

Insurance is a common theme in social services, reflecting that people would like to be "insured" against adverse events outside their control (section 9.3).[85] An "insurance approach" to social services is one that assigns the financial risks associated with poor social outcomes to organisations that are better placed than government to manage and reduce those risks. A full inter-temporal version of the investment approach, with a devolved system architecture and enrolled clients, would offer the advantages of an insurance approach without incurring the setup costs (section 9.4).

9.1 An investment approach

The social services system is there to help people's current needs. But it also needs fiscal and political sustainability. Otherwise it will be limited in its ability to provide future services.

The concerns of taxpayers and voters are important for fiscal and political sustainability. These concerns are not necessarily self-interested or narrow-sighted. People move between being a net taxpayer and net beneficiary over their lifetime. They want social services to be available to meet their current or future needs, and they want the services to provide effective care of the most disadvantaged.

Fiscal and political sustainability are promoted when people have confidence that the social services system is effective. This means that the system (as a whole) knows what works and for whom it works, and directs resources accordingly.

The Government's investment approach was developed by Work and Income, part of the Ministry of Social Development (MSD), based on the work of the Accident Compensation Corporation (ACC) (Chapter 3). MSD first applied the approach to active labour market programmes (ALMPs). For clarity, this report refers to that application as the *Ministry of Social Development's Investment Approach* (MIA). The MIA is an attempt to increase the effectiveness of social services through better investment and targeting of investment. It is also about providing an incentive for early intervention.

The Government is investigating applying an investment approach in other agencies, including Education and Corrections. Part of that investigation is finding the appropriate measure of social return.

Many submitters commented on the investment approach (Box 9.1).

Box 9.1 **Submissions on the investment approach**

> Manawanui believes that an investment approach to social services spending will lead to a better allocation of resources and better social outcomes. (Manawanui, sub. 8, p. 13)
>
> [An investment approach] definitely would not lead to a better allocation of resources and better social outcomes. It is dependent on measuring outcomes where you can be certain what and which intervention caused these outcomes. It is very rare to be able to ascertain this in an open diverse community; and it sends perverse signals to service providers. (Auckland District Council of Social Services, sub. 55, p. 8)
>
> We could be concerned if the analysis failed to measure the value of family care, and strengthened the incentive for the system to free-ride on unpaid family carers. If family care is regarded as a free service under an investment approach, it would be easy to imagine the level of paid care for people with illnesses or disabilities being reduced when the long-term cost is crystallised. That could be a very negative outcome. (Carers New Zealand, sub. 71, p. 8)
>
> An investment approach to social services would certainly lead to a better allocation of resources and better social outcomes. The concept of maximising long term social return would provide the focus required to support the delivery of tangible and definable outcomes which make a real and lasting difference to society. Any investment mechanism will need to align both the social and financial return to risk in order to attract the investment and deliver social return in the areas providing the greatest benefit to society. (Wise Group, sub. 41, p. 32)
>
> The investment approach has significant ethical and practical limitations … using clinical cut-offs for establishing who receives assistance, better data on how the client is doing, tracking their

[85] *Insurance* is paying a premium to an insurer with the expected consequence of a compensation payment should specific adverse circumstances arise.

> alliance with the practitioner, and actually listening and working with the client's ambitions will achieve far more than the investment approach. (Methodist Mission, sub. 4, pp. 21–22)
>
> The Investment Approach is in its early stages; it may have some benefits but also has a number of negatives. As in any new approach it will need careful implementation in a slow and staged way with high quality, independent long-term evaluations being critical to understanding if the benefits actually outweigh the negatives. (New Zealand Council of Christian Social Services, sub. DR201, p. 10)
>
> …the investment approach is not an appropriate vehicle for incentivising the efficient allocation of scarce resources by government. (Simon Chapple, sub. DR138, p. 1)

The Ministry of Social Development's Investment Approach

The MIA adopted investment and insurance tools to prioritise clients and select ALMPs based on the expected reduction in future welfare liability (FWL). The MIA is a significant improvement on MSD's traditional approach, which featured:

- cost–benefit analysis applied at the programme level, primarily before programme introduction; and
- performance measures generally based on throughput (ie, numbers placed into employment).

Targeting was a normal part of this approach. The performance measures adopted incentivised effort towards the recently unemployed and away from more "difficult cases". The MIA was motivated in part by a concern that the system was not doing enough for those in or facing long-term unemployment.

FWL identifies the people for whom the gains might be greatest, but is insufficient to guide effective interventions. Information on interventions, including their cost and effectiveness, is also essential. Collecting this information is a crucial component of the investment approach, and allows service targeting based on return on investment (ROI). Box 9.2 explains ROI and targeting, and how they support an efficient allocation of resources.

Box 9.2 **Investment approach concepts**

Return on investment

ROI is a measure that compares the expected return and cost of an investment. For example, an investment with an expected return of $250 on a cost of $100 has an ROI of 2.5. Investments with a higher ROI should receive priority, all else equal. And investments with an ROI of less than one should be avoided. Expected returns can be measured in different ways. Examples include direct financial returns, reductions in future financial liability, and social returns (which include benefits to people other than the investor).

Targeting

Targeting is the process of matching services to clients. Done well, it maximises total benefits within a budget limit. Optimum targeting requires a calculated ROI for each feasible service for each client, and then matching clients to services so as to maximise aggregate ROI.

The information requirements for optimum targeting are significant. The relevant information needs to be underpinned by high-quality research and evaluation. Well-designed and targeted programmes can offer large returns to government:

> [F]unding for specialist social services for [children and young people with serious conduct problems] is most effectively utilised when an investment approach is taken, concentrating funds in evidence-based programmes which are carefully integrated into the New Zealand cultural context. There is good evidence from the Washington State Institute of Public Policy that investment in early interventions which research has demonstrated leads to improved outcomes, leads in turn to

> reduced costs to the state over time and safer communities. For example, for every dollar spent on Functional Family Therapy for young offenders, there is an estimated net benefit to the Washington State of US$8.88. (Youth Horizons, sub. 67, p. 1)

Better information on the likely success of services is also a good thing for clients and their families. Presumably few clients would want to miss out on a service with a high chance of success, or receive a service that had a low chance of success.

Efficient allocation of resources

ROI also provides a basis for allocating funds across social services agencies. A risk of inflexible agency budgets is that a low-ROI programme in one agency might be funded at the same time as a high-ROI opportunity in a different agency is missed. An efficient allocation would favour high-ROI programmes over low-ROI ones, regardless of which budget funded those programmes.

FWL is an imperfect proxy measure for future net social benefits. However, a significant advantage of using FWL is that changes in individual liability can be aggregated into a performance measure. This allows for benchmarking across programmes, teams and agencies. Benchmarking can put pressure on low performance, and can highlight where to seek information on better performance.

Because the MIA is based on FWL, it compares the current fiscal cost of services with the future fiscal savings. The MIA is a narrow approach because it confines benefits and costs to fiscal impacts. These are important and easier to estimate than wider social benefits and costs. A divergence between fiscal impacts and wider social benefits and costs would be a concern if it led to inefficient or inappropriate targeting of labour market programmes.

Four important questions to consider are:

- Is FWL a good proxy for what society really cares about?
- Is FWL a better proxy than what it replaces?
- Is FWL better than feasible, alternative proxies?
- Can FWL be usefully refined and improved?

Is reducing future welfare liability a good proxy for what society really cares about?

There are good reasons for believing that FWL is strongly correlated with what society does care about, at least for the social services to which it is currently applied – primarily employment services. The service is aimed at getting people into work, and people who get and stay in work will likely have lower future welfare costs.

Further, being employed is strongly correlated with better social outcomes (Chapter 15). New Zealanders in employment rate their wellbeing more highly than the unemployed (Statistics New Zealand, 2015). The Welfare Working Group (WWG) called for recognition of the value and importance of paid work to social and economic wellbeing:

> Enabling people to move into paid work reduces the risk of poverty, improves outcomes for children and supports social and economic well-being. (WWG, 2011, p. 1)

The New Zealand Disability Support Network argued that employment has wide benefits for the wellbeing of disabled people:

> Increasing the economic participation of disabled people through employment must be a central policy to support the goal of living ordinary, inclusive lives in our communities and neighbourhoods. The whole of society will benefit if the labour market participation rate of disabled people can be significantly lifted – especially in the face of a shrinking labour market over the coming decades. The wider benefits of employment to the person in terms of economic participation, health and general wellbeing – and their reduced need to engage with social/health services, is well documented. (sub. DR163, p. 4)

Improved wellbeing may not be the experience of every person moving from welfare to work. The quality of employment matters too (NZCTU, sub. DR221), as do any impacts on family members:

> The impact of a sole parent going into full or part-time work and not being available to support their child is unknown... The long-term effect on the children of the sole parent will need to be monitored carefully to see if the lack of focussed parental support and the provision of commercial childcare in this situation enhances or reduces the child's long-term life prospects and need for State support. (New Zealand Council of Christian Social Services, sub. DR201, p. 10)

Liability calculated at the level of an individual can be interpreted as a budget. That is, how much would it be worth spending to reduce this person's liability to zero? This "budget" may be hundreds of thousands of dollars for many clients.[86] This will likely be significantly larger than the amount that government has been willing to spend on such clients in the past.

The approach may therefore justify higher overall levels of welfare spending. Whether it does or not depends on the availability of services that can cost-effectively reduce FWL.

Reduced FWL frees resources for other social services, both now and in the future. In addition, explicit recognition of future liabilities provides a basis for understanding inter-generational fiscal transfers that, if too imbalanced, undermine inter-generational equity (Evans & Quigley, 2013). This is not an unimportant issue – the Government's FWL was recently estimated at $69 billion (Taylor Fry, 2015).[87]

What is the underlying purpose of MSD's Investment Approach?

In the Commission's understanding, the purpose of the MIA is to make ALMP expenditure more efficient. Improved efficiency results from matching clients to programmes, based on the expected ROI of specific programmes for specific clients. Such matching will reduce FWL, but only to the extent that it is efficient (in terms of the Government's finances) to do so.

The Salvation Army expressed concern about the purpose of reform to social services:

> The Salvation Army is particularly troubled by the assumption made by the Commission, initially at page 11 in the draft report, that savings from reductions in future welfare liability (FWL) are a reasonable proxy for future net social benefits … the Army is concerned that the whole purpose of reform to social services might be only about the reduction in the costs of individual's welfare payments. In other words benefits such as improved personal or community outcomes such as reduced stress, better health or greater social cohesion are simply not relevant to objectives of these reforms. (sub. 214, p. 4)

Simon Chapple inferred a very specific purpose for the MIA:

> The aim of the investment approach is about providing incentives to reduce net government spending over time by reducing discretionary components, not economic efficiency… the investment approach is about optimally altering the inter-temporal income distribution from net recipients of welfare and government services to net tax payers. (sub. DR138, p. 3)

FWL could be reduced more directly by tightening welfare eligibility criteria or cutting the level of welfare payments. However, Parliament rather than MSD controls welfare eligibility criteria and payment levels – any changes need political support and are subject to public scrutiny. Similarly, the MIA works within the budget allocation for ALMPs approved by Parliament.

Chapple's concern might be realised if MSD had substantial discretion and the MIA was interpreted internally as prioritising FWL reduction in situations other than the matching of clients to programmes. The Commission has received no evidence that a simplistic interpretation of the MIA is encouraging staff to, for example, push people off benefits they are entitled to or into unsuitable jobs.

Further, a measure such as FWL, which takes long-term costs into account, should be less responsive to such opportunistic behaviour than more traditional performance measures, which concentrate on the short term.

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[86] The average lifetime cost of current income support clients was $107 000 as at 30 June 2014 (Taylor Fry, 2015).

[87] $69 billion was the predicted future cost of income support and associated administrative costs for clients who received income support in 2013/14.

Is reducing future welfare liability a better proxy than what it replaced?

> We can only speak for home support (DHB, ACC and disability). An investment approach would be an improvement on what currently exists. (Home and Community Health Association, sub. 114, p. 20)

> Simplistic measures, such as how many people have moved off benefit, do not tell the whole story. Has the move off benefit meant an improvement in the person's social and economic well-being? Is it sustainable? (Inclusive NZ, sub. 32, p. 5)

The MIA is driving strongly directed ROI-based targeting within MSD. Results to date suggest that improved targeting has been very successful in reducing FWL. MSD implemented policy and operational changes during 2013/14 that were responsible for $2.2 billion of a total $7.5 billion reduction in the FWL (Taylor Fry, 2015). In the previous system, according to the WWG, "the annual appropriations process encourage[d] a focus on those easiest to move off benefit, and away from those with greatest disadvantage, where investment based on managing a long-term cost would make the greatest difference" (WWG, 2011, pp. 130–31).

The large scope for getting better outcomes by applying an investment approach more consistently across the social services is evident. Chapter 2 documents how opportunities for early intervention are being missed. At the same time, successive governments introduce new programmes rather than testing the value of the large stock of existing programmes. The Better Public Service (BPS) targets attempt to direct effort towards the most important result areas. Yet decisions on resource allocation are only loosely related to the targets.

Mansell (2015) argued that the use of targets can have perverse effects. For instance, the BPS target "of getting 85% of 18 year olds achieving NCEA [National Certificate of Educational Achievement] level 2 … encourages schools to focus on those students who are already close to achieving NCEA level 2 and assist them to achieve it" (p. 48). Mansell pointed out that this target gives schools little incentive to raise the achievement of students who will easily achieve NCEA level 2, or of very weak students who have little chance of doing so. Over the years of schooling, weak students fall progressively behind, making success ever more distant, and increasing the risk of other poor outcomes. A different target specification, combined with an investment approach that took account of the performance of all students, could improve schools' incentives to avoid these poor longer-term consequences.

F9.1 The outcomes sought by the Ministry of Social Development's Investment Approach are likely to align with what citizens care about. The wider adoption of an investment approach would lead to substantial improvements in the targeting of social services.

Is reduction in future welfare liability better than feasible, alternative proxies?

The MIA is not a cost–benefit analysis (Box 9.3). Chapple (2013) suggested that a CBA is a more appropriate tool to prioritise ALMPs, as it explicitly incorporates the costs and benefits incurred by the recipient and by wider society.

Box 9.3 **Is the Ministry of Social Development's Investment Approach a cost-benefit analysis?**

The Ministry of Social Development's Investment Approach (MIA) is not a CBA, as it only evaluates the costs and benefits to a single party, in this case the Government. Such analyses are sometimes called "private CBAs". The Treasury's *Guide to Social Cost Benefit Analysis* uses the term "financial CBA":

> Another form of a partial CBA is a financial analysis, or financial CBA. A financial CBA limits itself to measuring the financial impacts of a decision on an organisation or person. (New Zealand Treasury, 2015, p. 56)

The MIA is a private CBA – it assesses the costs and benefits of programmes in terms of the financial gains and losses to the Government. A CBA is normally unconcerned with the costs and benefits to individual parties, except to the extent that they contribute to aggregate costs and benefits.

But the Government is not just another party. It is a collective organisation in which all New Zealanders have a stake. All have an ongoing interest in the financial sustainability of the Government, regardless of whether they are a net taxpayer or a net beneficiary at this point in time.

There will be some situations in which a financial CBA for government is a reasonable proxy for a full CBA; and others for which it will not. Distinguishing the two cases requires further analysis.

Social Service Providers Aotearoa argued for an investment approach to be supplemented by a CBA:

> We acknowledge the need for an investment approach to social services but submit that the forward liability model that emerged from the Welfare Working Group's benefit review and reforms is flawed in that it assumes that a reduction in fiscal costs of welfare will maximise employment and social outcomes. … We submit that this approach emphasises risk rather than benefit … it needs to be balanced by a cost-benefit analysis. In the context of social services, the agencies concerned must be tasked to improve social outcomes, not merely reduce the forward liability. This will look more positively at "risk" as an area for management but is also essential to innovation. (SSPA, sub. 129, p. 6)

CBA has many uses, and can be considered the "gold standard" aid for guiding government decision making:

> Cost-benefit analysis (CBA) is a technique for evaluating collective decisions that hinges on the comparisons of the costs of a proposal to its benefits, where costs and benefits are valued in monetary terms. In essence (and abstracting from the relevant technicalities), cost-benefit analysis asks whether the sum of the amounts the individuals who comprise the community at issue would be willing to pay for the project to proceed exceeds the costs of that project. (Ergas, 2009, p. 1)

CBA is often expensive and typically conducted on a one-off basis by skilled staff:

> Many government policy decisions have unique features that are not discussed in any CBA guide book. CBAs often require a good knowledge of economics, consideration of the issues from first principles, experience with other CBAs and practical knowledge of how to apply the various techniques discussed in this guide. Most government agencies will not have a sufficient flow of CBAs to justify the maintenance of sufficient in-house expertise to carry out a good quality CBA, and should therefore consider the engagement of outside consultants. (New Zealand Treasury, 2015, p. 39)

Actuarial approaches such as the MIA are also expensive (Simon Chapple, sub. DR138; State Services Commission & the Treasury, sub. DR225). CBA incorporates a wider range of costs and benefits than the MIA, and so will be more expensive to the extent that those additional measurements are themselves costly.

In the specific area of ALMPs in other countries, evaluations rarely include costs at all, and CBAs are rarer still (Card, Kluve & Weber, 2010; Jespersen, Munch & Skipper, 2008).

Table 9.1 presents the measurement requirements of three different frameworks for evaluating ALMPs.

- A financial CBA for government as implemented in the MIA, with suggested extensions as discussed in this chapter.
- A framework based on future wage benefits, proposed by Simon Chapple (sub. DR138) as a better proxy for a CBA than the MIA.
- A full CBA.

Table 9.1 Evaluation frameworks: Active labour market programmes

Input		Financial CBA	Future wage benefit	Cost–benefit analysis
Costs	Cost of intervention to government	Yes	Yes – at DWL[1]	Yes – at DWL
	Costs of being in employment (eg, transport to work, childcare) relative to costs of being on a benefit (eg, additional home heating)	No	No	Yes
	Opportunity cost of leisure time	No	No	Yes
	Negative externalities (eg, reduced support for other family members)	No	No	Yes
	Displacement effects[2]	No	No	Yes
	Other costs	No	No	Yes
Benefits				
	Expected reduction in welfare payments and welfare administration costs	Yes	Yes – at DWL	Yes – at DWL
	Expected gain in future earnings[3]	No – but suggested as an extension[4]	Yes[5]	Yes
	Avoided social expenditure (eg, reduced healthcare and corrections costs)	No – but suggested as an extension	No	Yes – plus DWL[6]
	Non-wage benefits to individual (eg, self-esteem, control over one's life, improved social participation)	No	No	Yes
	Positive externalities (eg, role model for children, social cohesion, reduced crime)	No	No	Yes
	Other benefits	No	No	Yes

Notes:

1. "At DWL" means that the relevant cost or benefit is the deadweight loss incurred by raising the tax and paying the transfer. New Zealand Treasury (2015) suggests using a rate of 20% of revenue raised as a default value for DWL loss, if there is no alternative based on evidence.
2. Displacement effects include that one person getting a job may "displace" or make it harder for others to get a job. For example, Dahlberg and Forslund (2005) estimated that employment subsidy programmes in Sweden had displacement effects of around 65%. They found no displacement effect for training programmes.
3. The expected gain in future earnings is the benefit used in most cost–benefit analyses of active labour market programmes (Jespersen, Munch & Skipper, 2008; Heckman, LaLonde & Smith, 1999).
4. The extension would include the expected tax collected on the gain, as this column contains the fiscal effects on government.
5. Chapple's proposal (sub. DR138) specifies "earnings" rather than expected gain in future earnings.
6. These are real costs rather than transfers. "Plus DWL" means that the relevant amount should be increased to account for the deadweight loss from raising the tax to pay for the social expenditure.

A few observations can be drawn from this table.

- The items that appear in all three frameworks are highly correlated (eg, one might be 20% of the other). Similarly, changes in future earnings are correlated with tax paid on those changes.

- Similar items appear in the first two frameworks. This suggests that, if applied for the purpose of prioritising programmes, they might generate similar (though not necessarily exactly the same) priorities.
- The third framework (CBA) contains significantly more measurements than the other two columns. The additional items, if they were relatively large and varied significantly between individuals, could cause decisions to diverge from those informed by using the first two frameworks.
- The additional items appear difficult to estimate at an individual level. For example, the opportunity costs of leisure time can vary widely from individual to individual (New Zealand Treasury, 2015).

This analysis does not provide a clear answer as to whether the first or second framework is preferable. The first has the advantage of clarity – it simply reflects effects on government's fiscal position. The second is more like a CBA, but is clearly incomplete.

The Commission considers that the MIA could be significantly refined and extended. It would be very useful to understand the magnitude and variability of the wider costs and benefits in Table 9.1 as an input to such refinement.

Can reduction in future welfare liability be usefully refined and improved?

Slavish application of an investment approach based purely on costs and benefits to government might lead to perverse outcomes. For example, some studies suggest that obesity might reduce future health costs as obese people die more quickly (van Baal et al., 2008). A health system that sought only a reduction in future health costs might therefore do little, if anything, to discourage obesity.

Such examples miss the point that the purpose of an investment approach is improving overall social outcomes. Should a particular choice of proxy promote perverse outcomes, then that is an argument for refining the proxy rather than abandoning the approach.

Targeting purely on ROI to government does not generalise well to all social services. For example, extending an investment approach to aged care would require a different measure of return. Such a measure might, for example, reflect improvements in quality of life. Similar concerns could apply in the case of people with intellectual disability:

> The investment approach adopted privileges reducing future welfare liability as the main criteria for deciding where to invest in social services. These parameters have huge potential to further disadvantage people with intellectual disability and their families…. By definition intellectual disability is life-long with on-going and fluctuating support needs. Targeting on a basis of a return on investment is problematic for the intellectually disabled population in several ways. Firstly, most life-long beneficiaries with life-long support needs may not be seen as individuals who will deliver a high return. Conversely people with high and complex support needs could make significant gains in well-being if they received quality, skilled and sustained support. Secondly there are perverse incentives with the targeted for outcomes approach in that people with fewer support needs will be selected over those with more complex support needs because they have a greater chance to achieve the desired outcomes. (IHC, sub. DR218, p. 5)

The New Zealand Council of Trade Unions pointed out the MIA ignores the client's perspective on sustainability and quality of employment:

> The initial findings from the investment approach shows that there has been a decrease in the number of beneficiaries and the Government has welcomed this as this is one of the Better Public Service targets. But the glaring omission from the initial evaluation is an evaluation of outcomes (such as decent jobs) for the beneficiaries themselves. The evaluation found a significant churn between employment and people going onto other benefits rather than off benefits. Missing from evaluation was any focus on the type and quality of employment that people are going into and how sustainable it is and the impacts from the beneficiaries' point of view – in the end, the crucial point. (sub. 103, p. 18)

While an estimate of FWL on an individual basis should be sensitive to the sustainability of employment, it does not explicitly incorporate the client's perspective of employment quality. In theory that could be done by extending the model to incorporate private costs and benefits to the client. A simple yet perhaps

worthwhile response would be to add future tax receipts or equivalently the future value of wages into the model.[88] This would tilt the system towards finding better paid jobs, all else equal.

Including future tax receipts in the measure of return has benefits beyond being a proxy for employment quality. It would move FWL closer to being a government-wide future liability measure, supporting better cross-government resource allocation. A similar case could be made for adding avoided education and health costs into the measure.

The proxy measure of social return has much potential for improvement, as noted by the Wise Group:

> Gaps currently exist in both the definition and capture of data to support the measurement of social returns on investment. Outcomes are often inherently difficult to define. However an investment approach would focus the need to address these definitions and stimulate innovative techniques for measurement. Often surrogate and associative measures can provide a pragmatic avenue for assessing the effective delivery of outcomes. (sub. 41, p. 32)

The potential for improvement of the FWL measure is a positive feature of the MIA, and such improvements should be pursued.

R9.1 Future welfare liability – the currently used proxy for social return in the Ministry of Social Development's Investment Approach – should be further refined to better reflect the wider costs and benefits of interventions.

Equity and an investment approach

Submitters raised questions about the underlying equity framework for an investment approach.[89]

Social services are a form of *merit good* – something that people should be able to receive aside from their ability or willingness to pay (Chapter 2).[90] Another way of saying this is that society cares not just about the quantity of social services delivered, but also *which people* receive those services. A service is usually intended for a group of people, sometimes the whole population but more typically a well-defined subset (eg, parents of young children). Who should get to use the service within that group, and how much of the service they get to use, is closely linked to the concept of equity.

Equity has many dimensions. These are usually expressed as goals such as:

- equity of access – each person should be provided with the means to be equally able to access a service;
- equity of opportunity – each person should be equally able to choose whether or not they make use of a service;
- equity of inputs – each person should receive an equal amount of resources;
- equity of outputs – each person should receive the same service;
- equity of outcomes – each person should have their condition raised to a common standard; and
- equity of relative improvement – each person should be improved by a similar increment.

It is generally impossible to achieve all of these goals at the same time.[91] So even if a service is equitable on one dimension it will be inequitable on at least one other dimension. To have a meaningful discussion in terms of equity goals, it is important to be clear which equity goal has priority.

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[88] This assumes that income is a reasonable proxy for employment quality. In the fiscal CBA approach future tax receipts would be a proxy for income.

[89] These included the Ministry of Health's NGO Health & Disability Network (sub. DR158), CCS Disability Services (sub. DR188), Human Rights Commission (sub. DR202), Hilary Stace (sub. DR196) and Simon Chapple (sub. DR138).

[90] Merit goods also include services that the recipient is unwilling to receive, but society judges that they should receive anyway. The equity questions around such services are complex. This section does not consider such services.

[91] Achieving these equity goals simultaneously would require people to be identical on relevant characteristics, for example their level of need and the degree of improvement in response to a standardised service. This is very unlikely for anything other than very small groups of people.

Equity concerns motivate another common approach – to give a person with greater needs a greater level of service. This "level of need" approach does not necessarily fit with either equity goals or minimum service criteria.

A different performance goal underlies the investment approach – greatest improvement in social value for each unit of resource deployed. (Social value in this context includes value to the service recipient as well as to other members of society.)

Strictly applied, this performance goal would mean that a person would not receive a service if they were not expected to improve in response to that service, or if their expected degree of improvement created no net social value. CCS Disability Services saw this as a "major flaw":

> We have major reservations about the investment approach. While it may be advantageous from a narrow fiscal stance, it is problematic in terms of the society's broader social goals. In fact, the investment approach contains a major flaw, which means it would disadvantage some of the most vulnerable people in society. The investment approach's emphasis is on allocative efficiency and it largely ignores distributional equity (often defined in terms of equality of opportunity, or equality of access). (sub. DR188, p. 6)

The Human Rights Commission identified this as a risk for "marginalised groups":

> [It is] important that any new social service funding system, such as the Investment Approach and related social insurance models, is designed or calibrated in such a way as to meet the wide range of needs that exist throughout the community. A focus on investing to minimise future welfare liability through targeted allocations may well have the potential to deliver a greater long-term social dividend than [the] current funding approach. However, with this approach comes a corresponding risk that marginalised groups with needs that are not recognised as having "investment value" may miss out. (sub. DR202, p. 4)

These concerns are justified. Yet the best response is not to toss out an investment approach. Needs are high and resources are, and always will be, limited. So it is very important that resources are allocated efficiently.

An uncontroversial aspect of efficiency is avoiding services that offer no benefit to the recipient or to wider society. Similarly the provision of services that offer the greatest benefits relative to their cost should also be uncontroversial. The two cases of interest are:

- a service that offers a benefit to a recipient (and wider society) greater than its costs, but that service is not provided to that recipient because other combinations of recipient and service offer higher benefit-cost ratios and budgets are limited; and
- a service that offers a benefit to the recipient, where that benefit (plus benefits to wider society) is lower than its cost, and no more cost-effective service is available for the recipient.

The first case is ultimately an opportunity missed due to a narrow investment horizon. Extending the investment approach could deal with this case (section 9.2).

The second case is the concern from an equity perspective. Social inclusiveness and a sense of fairness require assistance for people in need. Society should be able to offer some form of help, even when net social benefits are negative.

The Commission recommends that the underlying goal of an investment approach should be married with an explicit specification of minimum service criteria. (Those criteria will need to be defined in terms of the service in question.) Colloquially, this recommendation might be expressed "spend money according to where it does the most good, but everyone is entitled to have some money spent on them if it would do them some good".

R9.2 The investment approach's underlying goal of greatest improvement in social value for each unit of resource deployed risks excluding some clients from receiving any service. This goal should be combined with explicit criteria that give clients access to at least a minimum level of service.

Building confidence in the investment approach

The Office of the Auditor-General (OAG, 2014a) noted the valuation methodology used in the MIA has not been independently tested. The Public Service Association similarly highlighted the lack of independent evaluation of the MIA:

> There has been one evaluation of the investment model and this was commissioned by the Ministry of Social Development – the Department who initiated it and [is] responsible for implementing it. Evaluating a new programme may take some time for the evidence to become available, but those caveats should have been stated including that there has been no independent evaluation of this model. (PSA, sub. DR221, p. 18)

Estimates of the FWL will be highly sensitive to key assumptions made in building the actuarial model. Opening up the models to independent actuarial and economic scrutiny would be a useful step towards building confidence in the investment approach.

R9.3 The models underlying the Ministry of Social Development's Investment Approach, and future applications of the investment approach, should be open and subject to independent actuarial and economic scrutiny. This would help build public confidence in the approach.

9.2 Extending the investment approach to improve allocation decisions

Experience with the MIA has encouraged the Government to look at applying it in other fields. For example, the Ministry of Education has started work on an investment approach for the education system (Box 9.4).

Box 9.4 **Realising the potential of an investment approach in education**

We have begun work on the components of an investment approach for the education system. The increased ability to analyse data and evidence enables us to understand:

- how much we save when a cohort or individual gains qualifications
- how likely a child is to achieve a qualification or other achievement level
- the characteristics associated with the likelihood of achieving or not achieving
- the children and young people who participate in our programmes
- who our programmes work best for
- the return on investment from specific initiatives.

While this work is still in the early stages, it is showing great promise. Using this capability, we have tested a number of decision-making tools in the Budget 2015 process including a Return on Investment tool and risk modelling. Predictive modelling formed the basis for the Year 9 Plus initiative (to be trialled in Gisborne over the next few years). This initiative is based on data that enables us to identify young people with a high likelihood of not achieving qualifications, and to then intervene early to address their needs...

In extending this investment approach, work is needed to develop and agree the outcomes to be sought across the social sector. In education, a child or student centred approach is needed to ensure that developmental outcomes of individuals are at the forefront. This is very important

> positioning as there is a risk of dropping down to intermediate or sector-based outcomes that do not reflect the transitions that individuals make through the education system during their lifetimes.
>
> *Source*: Ministry of Education, sub. DR207, p. 3.

The power of the investment approach arises in part from being able to select from a wide range of interventions and choose the one with the highest ROI. That power will not be fully realised if the investment approach works in silos, on a programme-by-programme basis or on an agency-by-agency basis.

A family of investment approaches

The investment approach, as currently realised, is logically one of a larger group of "investment approaches" (Table 9.2).

Table 9.2 A family of investment approaches

Level	Applies	Effects
Current Investment Approach – within programme	Across clients	Improved client targeting within programmes; improved programme key performance indicators
Investment approach – whole of agency	Across programmes	Plus improved resource allocation within agencies
Investment approach – whole of government	Across agencies	Plus improved fiscal allocation across agencies; could add in future tax revenue
Investment approach – full inter-temporal version	Across time	Plus improved fiscal allocation across time
Insurance approach	–	Allocates financial risk to better align the long-term interests of organisations and their clients

Significant scope exists to extend the investment approach towards the more expansive approaches further down Table 9.2.

Investment approach – whole of agency

Expanding the MIA to include a wider range of programmes within MSD could improve that agency's resource allocation across those programmes. MSD is currently investigating the feasibility of applying the MIA to the social housing system (Edwards & Judd, 2014). The Government asked the Modernising Child, Youth and Family Expert Panel, appointed in April 2015, to consider developing an investment approach for Child, Youth and Family (MSD, 2015c). Expanding an investment approach within an agency could involve using a common outcome metric across programmes and making allocation decisions across programmes, or it could involve treating different programmes separately. Using a common outcome metric and making decisions across programmes will lead to a greater improvement in the allocation of resources than treating different programmes separately.

Providers are a necessary part of the relevant data collection, which will involve some additional costs:

> An investment approach to social services spending has the potential to lead to better allocation of resources and social outcomes. But it will require robust data collection and analysis. (Supporting Families in Mental Illness NZ, sub. 49, p. 13)

For ROI-based allocation to work across programmes, providers will also need access to the relevant client information and ROI information. Data collection and sharing issues are further discussed in Chapter 8.

It is important that this approach is applied to the stock of existing programmes as well as to new initiatives. Existing programmes represent a large proportion of expenditure, and therefore are likely to be a larger source of gains from improved resource allocation.

Investment approach – whole of government

> An investment approach should lead to better long-term outcomes and efficiencies across the system in the longer-term. (National Services Purchasing, sub. 111, p. 13)
>
> [Gaps in the investment approach might be improved by factoring] in the full/hidden lifetime costs – e.g. Family Violence/Children in poverty/not succeeding in school/health/justice/welfare/personal and system costs. (Presbyterian Support New Zealand, sub. 76, p. 21)

A risk of the MIA (and indeed of the wider social services system) is that it is largely blind to the most cost-effective intervention where that intervention sits in another administrative silo. For example, health, education and other problems often co-exist with employment problems. Applying an investment approach within an employment context might overlook the savings to the health and education parts of the system and vice versa. Not recognising these savings, the individual parts of the system might under-invest. Over-investment could also occur if individual parts of the system fail to coordinate their interventions.

A first step towards better allocation decisions would be to calculate the future liability of individuals (or families as appropriate) at an agency level. The second step would be to share that information across agencies. The third step would be to combine this with cross-agency ROI information on suitable programmes, so that the highest-ROI programme can be selected and applied.

Developing common outcome measures across agencies and programmes, and considering investment decisions in a common framework would support the greatest improvement in the use of resources. A comprehensive, client-centred data network that spans social services provision would help predict outcomes for different types of clients (Chapter 8). The greater the time span of data available, the more accurate the predictions. Measures of actual outcomes compared to predictions would help identify the effectiveness of interventions and guide resourcing decisions.

Decisions on allocating resources will need to fit within the Government's preferred commissioning arrangements (Chapter 6). Finer-grained decisions could be devolved to improve responsiveness and flexibility. Even so, it would be desirable to maintain a broad decision-making framework across social services. A broad framework is needed to guide resources to types of service and types of clients where, looking across social services, the ROI is highest.

R9.4 The investment approach should be extended to operate at a cross-programme, cross-agency level.

Investment approach – full inter-temporal version

An investment approach naturally brings in a time dimension, as future costs are used to prioritise spending decisions made in the present.

An investment approach should also generate the information necessary to justify the optimal transfer of funds across time (ie, *inter-temporal* transfers). The information generated by the MIA, for example, might identify some interventions that offered a significant ROI but are not possible within current budget limits. Such information might support a budget bid to fund those interventions.

More generally, an investment approach could be extended to operate across multiple budget periods:

> An investment approach that takes a broad-based, long-term view of government spending and its resulting benefits, rather than an approach which relies on short-term savings and short-term outcomes, would be welcomed. The difficulties that relate to a long-term approach, within a short-term political cycle, are however acknowledged. (New Zealand Educational Institute Te Riu Roa, sub. 40, p. 39)
>
> New investment which generates positive social returns may well be funded through reduced levels of social support funding in the longer term. This is likely to be easier to achieve than attempts to redirect existing social support funding in the short term. (Wise Group, sub. 41, p. 32)

In principle, transfers might be required in either direction. Concern about transferring the liability for current citizens to the future might justify borrowing (fiscally) from the future to reduce the (human) cost in future.

But incurring too much public debt could hamper the ability of future generations to fund their own social services. The expected costs of demographic change (Chapter 2) might justify the opposite – public saving now to fund future expected costs.[92]

Borrowing now to fund investments that will reduce welfare liability is correct in principle. But it does run the risk of burdening future generations with debt, leaving them less able to meet the costs of their own social services. The current generation needs reliable evidence on future benefits and risks to justify borrowing. Both social and economic costs placed on future generations have implications for inter-generational equity.

F9.2 Borrowing now to fund investments that are expected to reduce future social welfare liability is good in principle, but has risks in practice. Both social and economic costs placed on future generations have implications for inter-generational equity.

A devolved investment approach

The MIA is a top-down approach to prioritising investment that selects from a menu of interventions and matches them to client groups to get the best return on investment. A more devolved approach to investing in social services would better encourage innovation in client-centred services. A devolved approach requires transparent information on costs and client outcomes to be shared across commissioning organisations and providers (Chapter 8). Such an approach also needs an accountability and decision-making framework to allocate resources to get the best return in terms of improved client outcomes. This might include:

- a commissioning agency defining high-level outcomes it is seeking;
- assessment of needs for a defined population and prioritising of investments to get the best ROI;
- providers engaging clients and developing client-specific goals (congruent with the high-level outcomes) based on the client's capabilities and aspirations;
- providers having the freedom to work with the client to design and implement interventions to improve outcomes for the client; and
- providers being rewarded for their success in helping clients achieve better than expected outcomes.

An investment approach can be applied to social services for any client group. More differentiated approaches may be needed to meet the needs of particular client groups. Chapter 10 sets out the requirements for a devolved investment approach to improving outcomes for the most disadvantaged New Zealanders (quadrant D).

An "insurance approach"

The effectiveness of the investment approach is crucially dependent on organisations using reductions in FWL (or an improved proxy) as a performance measure that strongly influences behaviour and allocation decisions. That is, the organisation and those in it need to face strong incentives to maximise that performance measure. The benefits of an investment approach will not be realised if these incentives are weak.

Institutional architectures affect the form and strength of incentives. While the investment approach was developed in the context of top-down control, it could also be applied in devolved architectures (Chapter 5).

Under top-down control, the Government carries the financial risks of FWL. Assigning some or all of that risk to other organisations would create strong incentives for those organisations to take actions that reduced that liability. If those parties are more responsive to such incentives than government, they may be a better holder of that risk.

[92] Whether or not a government actually borrows to fund a particular activity depends on its net cashflow for the year in question, which in turn reflects its wider revenue and spending decisions. For simplicity, this section ignores this when referring to "borrowing" and "saving".

Further, some organisations may be better placed than government agencies to manage such risks. This could be because they have close social connections with clients or are better placed to influence client behaviour.

An "insurance approach" is one that assigns part or all of the financial risk of poor outcomes for specific clients to other organisations. Section 9.3 discusses the links between insurance and social welfare. Section 9.4 explores insurance approaches.

Contracting for outcomes and social bonds

Contracting for outcomes (Chapter 12) and social bonds (Chapters 3 and 6) can be seen as short-term and medium-term versions of an insurance approach respectively, where the outcome measure is chosen to proxy the change achieved in long-term liability. In each case, the contracted party carries financial risks that the specified change in the outcome measure will not be achieved.

If well designed, payment terms should reflect the change in future liabilities achieved by the contractor through well-chosen investment during the contracted period. But measurement difficulties and financial risk can combine to make such contracts costly to negotiate, limiting the application of these approaches. An insurer carrying the long-term risks does not face these pre-contract negotiation costs.

9.3 Insurance and social welfare

Individual choices – including the use of private financial and insurance markets – can assist people to improve their social welfare. But people, for many reasons, fail to make good choices or fail to take advantage of private markets. Similarly, there are reasons why private financial and insurance markets do not exist for particular purposes, even in the presence of private demand for such services.

An understanding of these reasons is important background for understanding government involvement in "social" insurance.

People may not make optimum investments in themselves

Many individuals invest in themselves, with or without the support of their families.[93] Yet, for many reasons, people may not make optimum investments in themselves.

One reason is that a lack of information or inadequate access to finance can lead to private under-investment.

A further reason is that individuals may underweight the costs of present actions to their future selves. For example, they may prefer to consume more today and defer saving for retirement until tomorrow. Yet tomorrow, the same logic applies. The consequence of such thinking is lower-than-ideal savings.

The presence of free or subsidised social services reduces the incentives for self-investment and self-insurance (for those who can afford such investment or insurance).

Financial markets have limitations

People might want to invest in themselves, but lack the money to do so. This problem might be alleviated if they could borrow – however those in most need may have little ability to borrow from private lenders. Government-backed loan schemes can alleviate this problem in some cases (eg, student loans for tertiary education).

Private insurance markets have limitations

Individuals and their families are too small to pool the risks of random, infrequent events:[94]

[93] Invest, in this context, means incurring a cost now with an expectation of a return over the longer term. An example is staying a year longer at school (and therefore forgoing some income), with the expectation of a higher income overall over one's working life.

[94] Insurance schemes are built on the principle that outcomes are predictable for a large sample of policyholders, but not for individual policyholders. Individuals benefit by *pooling* their risk so as to insure them against the occurrence of some contingency with high or catastrophic financial costs.

> [D]isability itself is largely a random event, unable to be planned for in advance through saving/budgeting and life adaptation. This applies to congenital disabilities as well as those caused through injury/accident. The consequences of such events can be life-changing for individuals and families. Insurance before the event is often not an option. Even when there may exist private insurance mechanisms, the longer term repercussions of a disability are not always adequately covered. Moral hazard and adverse selection add to the inefficiencies of relying upon private insurance for funding. [95] Ultimately and understandably, for many of the more serious disabilities, New Zealand's choice has been social insurance funded from general taxation or a special levy – as in the case of ACC. (New Zealand Disability Support Network, sub. 47, p. 4)

Private insurance markets are effective at pooling risk, but they have their limitations.

- Those most affected may not get the chance to participate (eg, an individual does not get the option of purchasing disability insurance before their birth).[96]
- The Government in many cases covers the *residual risk*; that is, it covers the costs of claims from the uninsured. Knowing this, many will choose not to take out private insurance.
- People who buy insurance tend to have higher than average expected claims for their risk class because of risk factors known to them but unknown to the insurer (adverse selection). This pushes premiums higher, making the insurance even less attractive to the wider population.
- People with insurance tend to reduce the care they take to avoid or reduce insured losses (moral hazard). Together with adverse selection, this makes it uneconomic for insurers to offer all desirable insurance products.

Individual choices may not result in the best social outcomes

Private choices as to the optimum level of self-investment also differ from socially optimum choices where significant spillover effects are present. For example, while an individual benefits directly from vaccination, the unvaccinated in their community also benefit indirectly due to them having a reduced chance of coming into contact with an infectious individual (Fine, Eames & Heymann, 2011). If only private benefits are taken into account, then too few people may choose to be immunised relative to the social optimum.

9.4 An insurance approach

Early intervention can prevent future costs. If those avoided costs (suitably discounted) exceed the cost of intervention now, then society gains a net benefit if that intervention is made (Box 9.5).

Box 9.5 **Calculating the net benefits from early intervention**

Not every intervention offers a net benefit to society. Such questions can only be answered through research that estimates the direct costs and benefits of the intervention. Factors that favour early intervention include:

- a low proportion of false positives (ie, wasted interventions);
- a low proportion of false negatives (ie, missed opportunities for intervention) if there are also economies of scale in delivering the intervention;
- a high probability of an intervention being successful;
- little delay between the costs incurred and the benefits created;

[95] Moral hazard is the tendency of people with insurance to reduce the care they take to avoid or reduce insured loses. Moral hazard is one of the issues that need to be taken into account in the design of social services more generally. Co-payments and deductibles are traditional approaches to reducing moral hazard (see Appendix F). Adverse selection undermines risk pooling, and can make private insurance infeasible (Appendix F). In such cases, compulsory insurance is an option.

[96] Their parents could purchase such insurance, but this is outside the control of the individual.

- low uncertainty about avoided future costs (eg, an early intervention to avoid diabetes might be justified assuming diabetes continues to be an expensive, debilitating condition; but there is always the chance that a cheap, effective drug becomes available);
- a low discount rate; and
- a low risk that the intervention is undermined by behavioural changes (eg, people taking diet medication might eat more, believing that the medication is more effective than it actually is) (Bolton, Bhattacharjee & Reed II, 2015).

Chapter 2 presents examples of well-researched studies that demonstrate missed opportunities for early intervention in New Zealand.

A lower-than-ideal amount of early intervention might occur if the costs and benefits of intervention accrue to different parties. For example, the benefits of a housing intervention might be positive and spread across health and education outcomes, but neither the health nor education agency might make that intervention should they consider only the benefits within their own area of responsibility.

Similar considerations apply to service quality. Fee-for-service arrangements might tempt providers to skimp on quality. Conversely, cost-plus arrangements might encourage overly high-quality services. An insurer has the incentives to choose a level of quality that minimises their long-term cost.

The Government can transfer some risk, but carries residual liability

Reflecting citizen expectations, the Government has accepted responsibility for a significant number of personal risks its citizens face. These include accidents, disability, illness requiring hospital care and old age.[97] In this sense, the New Zealand Government is a big insurance company, and all citizens are "members" of an insurance scheme. Citizens pay their premiums through the tax system.

The Government faces the question of whether it is better to carry risk itself or transfer it to other organisations. Transfer only makes sense if those other organisations can better manage that risk. Better management might arise for many reasons, including that an organisation:

- has close connections to, and better information about, a defined population;
- is better able to positively influence the behaviour of a defined population; or
- faces stronger incentives to manage those risks.

If better risk management by other organisations can reduce the total liability, and that reduction exceeds the transaction costs involved in the risk transfer, then an economic case exists for the Government to pay premiums to such organisations for them to assume and manage the Government's risk.

Government cannot transfer its liability completely. Should an insurer fail, for example, the Government may be left with discharging the insurer's responsibilities to its members. The costs of carrying residual liability should be factored into the economic case.

Social insurers

Social insurance is an insurance scheme organised by the state with compulsory membership, and in which premiums are related to the ability to pay.[98]

[97] Old age is a risk to the individual in that their lifetime is uncertain and they may live beyond the point at which their savings run out. Government-organised pension schemes can pool this risk. They need sufficient funds to cover average rather than maximum lifetimes.

[98] This definition is based on that in Connolly and Munro (1999), with the additional requirement of compulsory membership.

This definition distinguishes social insurance from *private insurance*, where membership is voluntary and premiums are set without reference to a member's ability to pay.

The social insurance models discussed in this section generally involve the Government paying premiums on behalf of those insured.[99]

Reasons for compulsory social insurance

Private insurers might find certain classes of consumer to be unprofitable to insure, and therefore not serve that market. Alternatively, they might only serve those consumers at such a high price as to exclude those lacking the necessary financial resources. Alternatively, some consumers might opt not to take out insurance even when they can afford to. In such circumstances compulsory insurance, with some or all public funding or provision, can be important for ensuring equity of access, and reducing any undesirable social costs from consumers having inadequate insurance (Barr, 2012).

A social insurance model might address these problems. In such a model, all citizens are enrolled with an insurer. Based on the member's risk profile, the insurer receives a premium from the Government each year, and the insurer pays all social services costs ("claims") directly. The insurer can calculate an expected future claim cost for each member. It is incentivised to make early interventions that reduce that member's expected future claim cost by more than the cost of the intervention. Similarly, the insurer is incentivised to make good decisions about service delivery, as it bears both the current costs of excess quality and the future costs of poor quality.

A potentially difficult issue for social insurance is establishing the state-funded entitlement for each individual. For instance, in the Netherlands' compulsory health insurance model, the Health Insurance Act sets out broad entitlements and insurance contracts specify precise entitlements (van de Ven & Schut, 2008).

F9.3 A social insurance model aligns the long-term incentives of insurers and their members. Because social insurers face the long-term costs of service decisions, they have the incentives to make sound decisions about early intervention and service quality.

To work properly, social insurance models require that:

- the insurer faces all relevant claim costs;
- the insurer is able to borrow against future cost savings;
- all citizens are members; and
- the insurer has the financial resources to underwrite the risk of claims exceeding premiums over time.[100]

The Government cannot contract away the residual risk of poor outcomes for its citizens, and therefore faces the possibility of having to bail out a failed insurer or otherwise support its members. This limits the premiums that the Government is willing to pay to non-government insurers to a level lower than the Government's expected future cost. A social insurance system with non-government providers would need to generate sufficient benefits above and beyond direct government coverage to meet this difference.

National insurers

In theory, government could create a single insurance agency with responsibility for social insurance for a wide range of social services. Yet in practice such an organisation could be bureaucratically unwieldy. More practical arrangements involve national insurers, each with national responsibility for a relatively narrow service area (or condition type). Yet such a system can limit the potential for improved service integration and resource allocation across service areas.

[99] The compulsory health insurance scheme in the Netherlands is a partial exception (Box 9.9).

[100] The requirement that all citizens are members would clearly need a set of supporting rules. For example, babies might be enrolled at birth with their mother's insurer. Similarly, immigrants might have a default insurer, or a mechanism might allocate them among existing insurers.

The Accident Compensation Corporation (ACC), for example, operates as a national insurer (Box 9.6).

Box 9.6 **The Accident Compensation Corporation**

ACC is the Crown entity that manages and delivers the Accident Compensation Scheme. The Scheme delivers injury prevention initiatives and no-fault personal injury cover for everyone in New Zealand. To pay for its services, ACC collects revenue through levies paid by employers, employees, and motor vehicle owners and drivers, and also receives government funding (sub. 30).

ACC is effectively contracted to mitigate the effects of injuries and therefore has an incentive to mitigate efficiently, including by investing now to reduce costs down the track:

> The Accident Insurance Act 1998 also returned all accounts under the scheme to a fully-funded rather than a pay-as-you-go system. (ACC, 2014a)

ACC is investing in early intervention programmes (Box 9.7).

Box 9.7 **ACC early intervention programmes**

ACC spent $34 million on injury prevention in 2013/14 (sub. 30). Over recent years it has conducted education, information, research and training programmes on injury prevention – covering sports, workplaces, farms, and on the road and at home.

ACC adopted a new approach in 2014, covering six areas: falls, work, road, treatment injury, sport and community, and sexual and family violence.

Together these areas represent 85% of new costs to the ACC Scheme. They also have wider social and economic costs. For example, the Treasury estimates the cost of sexual violence to the economy is $1.2 billion each year.

New ACC initiatives aimed at reducing the number of falls among older people were announced in August 2015, reflecting high current and anticipated personal and financial costs:

> Falls cause around 40 per cent of ACC claims for people aged between 65 and 69, and around 60 per cent of claims for those aged over 85. The anticipated lifetime [cost] of these claims received in 2013 alone is $351 million. …the number of people in New Zealand aged 65 and over is expected to double to around 1.2 million by 2035. (Kaye & Barry, 2015)

Other specific prevention programmes include the Ride Forever training programme for motorcyclists, which offers learner, returning and experienced rider training. ACC piloted a "Mates and Dates" healthy relationships programme in eight secondary schools in 2014.

ACC provides levy discounts for employers to join workplace health safety and injury management programmes.

Source: ACC, 2014b; pers. comm., 17 April 2015.

ACC takes actions to reduce the future costs of accident claims (Box 9.8).

Box 9.8 **ACC actions to reduce future costs**

The Commission heard two examples of how ACC reduces the future costs of accident claims through the ways it chooses to interact with the health system.

- Where a health condition is preventing an ACC claimant from getting back to work, but treatment in the public health system is likely to be delayed, ACC may pay for the claimant to receive treatment from private health providers.

- ACC pays for accident victims with suspected spinal cord impairment to be transported as soon as practicable to one of two specialist spinal injury treatment units in the country, as early expert treatment can lead to substantially better medical outcomes.[101]

The first example was contrasted with the situation for those clients of employment services who have health problems that prevent them from working. The social services system lacks the incentives and mechanisms for coordination between MSD and the Ministry of Health (MoH) to resolve this problem.

The second example was contrasted with the previous arrangements, where such patients might have spent a week or two at a non-specialist hospital before being transferred to a specialist unit.

ACC is an example of a successful social insurer with relatively narrow responsibilities.[102] New Zealanders generally regard this to be a superior way of organising accident compensation.[103]

National insurers in other countries

National Insurance in the United Kingdom dates back to 1911. It has many of the features of social insurance. Workers and employers make contributions towards the costs of specific state benefits. The scheme is tightly integrated with the national tax and welfare systems.

Australian National Disability Insurance Scheme

Australia's National Disability Insurance Scheme (NDIS) is another example of a national insurer covering a particular client group (Chapter 3). The Scheme takes an actuarial approach to make the best use of resources to support people with disabilities over their lifetime:

> The NDIS is insurance not welfare.
>
> The importance of the insurance model to the NDIS is crucial to understand.
>
> Any one of us, rich or poor, can have our life turned upside down by a severe and permanent disability. Individually, the risk of being severely or profoundly disabled before the age of 65 is low, but the consequences for those unfortunate enough to be so can be catastrophic.
>
> But by paying premiums to the NDIS through the Medicare Levy and general taxes, Australians are now sharing the risk and helping each other. Pooling the risks make them affordable for all.
>
> And by operating like an insurance scheme, using rich data to make continual actuarial assessments of costs and effectiveness, the NDIS is able to continually improve…
>
> Because it calculates and seeks to minimise the cost of supporting participants over their lifetimes rather than just twelve months, as part of annual budget cycles, the NDIS is able to invest in people with disability, as well as support them…
>
> Examples to date include a … young man with a spinal cord injury needed the support of two carers per day to assist him in and out of bed and to help with daily activities. Under the NDIS a ceiling track hoist was installed in his home which immediately reduced his dependence, while also reducing the costs of supporting him by more than $1 million over his lifetime. (Bonyhady, 2014b, pp. 9–10)

Multiple social insurers

A single insurer with compulsory membership may face the right incentives. Some further requirements apply if there are multiple insurers. An enrolment mechanism is needed to allocate citizens to insurers. Citizen choice – based on the specialisations and reputation of insurers – is preferable to administrative allocation (Chapter 11). A default allocation mechanism may be required for anyone failing to make a positive choice.

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[101] This is part of a cross-government initiative, which also involves the Ministry of Health, the National Ambulance Sector Office and District Health Boards (ACC, sub. DR219, p. 5).

[102] The Earthquake Commission (EQC) is another example of a state insurer, funded from levies on private insurance contracts.

[103] This is not to say that all New Zealanders are satisfied with the way that ACC has dealt with their claims.

In theory, citizens could make a one-time election of their insurer. However, this would erode the incentives of insurers to take good care of their existing members. It would also be unreasonably restrictive on members whose circumstances change. For example, members form and exit relationships with those who might belong to other insurers, and might reasonably want their whole family to share a common insurer. People also change personal affiliations over time and move within the country, and may wish to choose another insurer that better matches their updated affiliations and location.

Incentives for insurers

Allowing members to change insurers has a potentially negative effect on insurers' incentives. The insurance approach works by providing incentives for insurers to make investments that minimise the long-term costs of providing services for members. These incentives are muted in many private insurance markets. For example, private health insurers lose the benefits of early investments should members choose not to renew their policy. Insurers under-invest, anticipating such non-renewals.

For insurers to face the correct incentives in a multiple insurance model, it is necessary that members:

- can only claim from one insurer; and
- cannot swap insurers, without a system of cross-payments reflecting earlier interventions.

Such an arrangement is a feature of compulsory health insurance in the Netherlands (Box 9.9).

Cream skimming and parking

Cream skimming or *cherry picking* refers to the behaviour of insurers that actively recruit the clients on whom they can make a profit, or avoid those on whom they expect a loss (see Chapter 6).

Parking refers to the behaviour of insurers who leave difficult clients "on their books", doing the minimum to continue receiving a premium yet not enough to achieve a desirable outcome for those clients (see Chapter 6).

Social insurance schemes require careful design to reduce the incentives for these behaviours.

The Auckland District Council of Social Services expressed the view that these types of insurer behaviour undermine the case for the wider application of social insurance:

> We can see no advantages to this approach for complex or multiple issues. There have been few successes overseas and more failures. An almost entirely objective issue such as accident compensation is appropriate and possibly applicable for a very specific illness or disability. Otherwise the likelihood is that insurers and investors will only take on the cheap low hanging fruit of people who are competent and have only one or two clear issues,] leaving those most in need of the service to miss out. The experience of so-called "community care" for mentally ill people in some US States is a clear and shameful example of this. There is also the commercial risk of an insurer falling over. The benefits of comparative success will accrue more to the investors and shareholders rather than to the clients. (sub. 141, p. 9)

Multiple social insurers in other countries

There are many social insurance schemes in European countries involving multiple insurers. Germany, for instance, has a long tradition of not-for-profit (NFP) sickness funds, often based on professions or on regions. The Netherlands provides a particularly interesting example (Box 9.9).

Box 9.9 **Compulsory health insurance in the Netherlands**

The Netherlands moved to a new system of universal compulsory insurance in 2006, with consumers having a choice of non-government insurers. Insurers compete to provide a legally prescribed benefit package.

The Netherlands previously had a social insurance system, with regionally based NFP sickness funds for those on low and middle incomes covering almost 70% of the population. A mix of compulsory payroll

contributions and general taxation funded the system. The rest of the population made their own arrangements with private insurers or simply paid for their own health expenses.

Under the new system, consumers can change their insurer each year. About 4% of consumers do so. Insurers must accept each applicant at a community-rated premium and without excluding coverage of pre-existing conditions.[104] Consumers also pay income-related contributions into a government-held fund. Regulation includes a sophisticated system of inter-insurer transfers and government subsidies funded by the income-related contributions. Transfers and subsidies match the patient risk pool of each insurer to the funds derived from premiums. Private providers deliver healthcare (van de Ven & Schut, 2008).

Competition for market share triggered a rapid consolidation of the health insurance market. By 2011, the four largest insurers had a joint market share exceeding 90% (Schut, Sorbe & Høj, 2013). As a result, regulators have concerns about the level of competition. Insurers have so far had little visible impact on raising quality, partly because it has taken time to develop indicators of quality. Insurers have focused more on competing on price to attract clients (Schut, 2010). Waiting times, already low, have been further reduced since 2006 (Schut, Sorbe & Høj, 2013). All health insurers are NFPs.

90% of consumers purchase supplementary health insurance for benefits that are not included in the mandatory basic insurance (van de Ven & Schut, 2008).

Social insurance proposals in New Zealand

In the mid-1980s the Government commissioned a review of health benefits. Among the options canvassed by the review was "a regulated, competitive system of health maintenance organisations" offering health insurance (Health Benefits Review, 1986, p. 104). One potential problem the review identified was that the small New Zealand population might support only a limited number of insurance firms. Another possible problem was that a move to an insurance model for health services would be a major change, with potential difficulties and costs in making the change.

The government of the early 1990s contemplated health consumers being able to choose "healthcare plans" from non-government insurers, as an alternative to government-provided services (Box 9.10). This aspect of the 1990s health reform proposals was not implemented. Among other problems, the Government found it difficult to specify core entitlements, which were needed to underpin the insurance approach. Moving from a system that rationed health services to one that offered entitlements would have made containing costs more difficult.

Barrett (1997) reported strong Māori interest in the 1991 proposal for healthcare plans:

> Māori were quick to recognise the opportunity inherent in healthcare plans. A hui held at Takapuwahia, near Wellington, in 1992, established Te Waka Hauora to initiate a Māori healthcare plan. The directors were Mason Durie, Areta Kōpu, and Mānu Paul. There were difficulties with the concept of health care plans, however, and Government abandoned them soon after the health reforms were instigated. Interest in a Māori healthcare plan waned. (p. 3)

Box 9.10 **The 1991 proposal for healthcare plans**

Your health & the public health, a 1991 statement of government health policy, set out a proposal for healthcare plans that health consumers could choose as an alternative to government health services:

> Once Regional Health Authorities (RHAs), Crown Health Enterprises (CHEs) and community trusts are fully established, people who would prefer a different approach to health care delivery from

[104] An insurer must offer the same premium to each customer for the same type of insurance contract. The premium may vary depending on which province the customer lives in (van de Ven & Schut, 2008).

that offered by their RHA will be allowed to leave it and obtain all their health services through another health care plan of their choice.

- People will be able to take their entitlement to Government funding for health care with them from the RHA to pay the annual fee of their healthcare plan.
- Those who have higher-cost health needs will take a larger entitlement to funding with them, to encourage plans to take the sick as well as the healthy.
- Health care plans will manage the total health care requirements of their clients. They will be obliged to offer to all their clients affordable access to the same range of services as RHAs. This compulsory range of services, "called core health services", will be specified.
- Health care plans may take various forms. They may provide some health services themselves, but will contract with other health care providers – including CHEs and community trusts – to deliver core health services for their clients.
- Health care plans may specialise in meeting the health care needs of particular groups. Plans may be established around union health centres, group general practices, networks of general practices or multi-speciality groups. Community-based plans might be built around community trusts. Health insurers may wish to move into providing comprehensive managed health care – by establishing plans. Large firms may want to underwrite a health care plan for their employees.
- Iwi authorities and other Māori organisations will be able to establish health care plans concentrating on Māori health needs, addressing Māori concerns about how health services are delivered. This will offer Māori a vehicle for taking greater control over the resources used for health services for Māori.
- To protect clients of the health system, and to contain health care costs, health care plans will operate within limits set by regulation.
- Choice of health care plans will be phased in so as to allow time for development of the skills and experience required for this type of managed care.

Source: Minister of Health, 1991, pp. 61–62.

A working group set up by the MoH looked at social insurance models in 2002. They concluded:

> Given New Zealand's history and present tax-funded system, there would need to be a very strong case for shifting the health system to a social insurance model. Such a shift would be disruptive and would run counter to the trend of social insurance models [in other countries] adopting more of the features of tax-financed systems. (MoH, 2002, p. 21)

New Zealand governments have also looked at opening up accident compensation insurance to multiple non-government providers, either generally (in the late 1990s) or for workers' accident compensation (in 2011) (Reid & MacKessack, 2011).

An attractive model but challenging and slow to design and implement

There are reasons to believe that a multiple insurer model would out-perform a single government insurer. Benefits would arise from specialisation to particular population groups and competitive pressure to find innovative ways to increase quality and reduce costs.

Yet implementing a multiple social insurer model needs to address a number of difficult issues. These include defining entitlements in a way that manages overall costs, and providing insurers with the right incentives to make sound decisions about early intervention and service quality. Managing the transition from a tax-funded system to a social insurance system would also be challenging. Even so, other countries, such as the Netherlands, have managed to successfully implement a social insurance model with multiple insurers (Box 9.9).

A more practical question is what sort of organisations might become non-government social insurers under such a model. Existing organisations that might have the capacity and interest to expand into social insurance include for-profit (FP) and NFP health insurers, FP and NFP life insurers, iwi and unions.

It is also possible that purpose-built organisations may enter such a market. As noted by the Wise Group:

> There is enormous potential to direct private investment toward social outcomes … Trusted mechanisms and investment vehicles which provide a realistic financial return relative to risk need to be established quickly and efficiently. The appropriate sharing of risk between providers, investors and underwriters is a key to success. (sub. 41, p. 4)

A government-owned and operated social insurer might form a useful role during a transition to a multi-insurer model, and indeed may be a permanent feature if it is sufficiently responsive to member interests.

F9.4 A social insurance model with multiple non-government insurers has good opportunities and incentives for innovation, and may out-perform models with a single government insurer over the longer term. Such models face difficult design and transition issues.

Other ways to get the advantages of an insurance approach

Social insurance is part of the social services system in New Zealand and overseas. This makes it important to understand the strengths and weaknesses of this approach.

Social insurance appears very attractive in theory yet challenging in practice. It takes a long time to design and establish a social insurance system, and any transition to a new system will be lengthy and likely difficult. An additional concern is that during such a transition insufficient attention would be paid to measures that might be implemented more quickly and offer earlier social returns.

For these reasons the Commission is not recommending a wide extension of social insurance in New Zealand. But nor does it recommend ruling out social insurance. In particular, there may be narrower opportunities where the approach is worth exploring. As expressed by Presbyterian Support New Zealand:

> We would not recommend this approach for complex social/emotional issues but it could be worth exploring for particular population segments or users of particular services eg care of older people, disability sector. (sub. DR186, p. 8)

IHC has supported further consideration of a social insurance model for disability support services:

> [F]urther consideration is warranted of a social insurance model with a single government owned (or Crown entity) insurer for disability support services. It could either be based on the ACC model or ACC expanded to include non-accident related disability. It is worth noting that the Australian NDIS scheme is tax based and that it came about through the Australian Productivity Commission report which also identified that disability support services were significantly underfunded. (IHC, sub. DR218, p. 12)

This leaves the question as to whether there are other ways to obtain the benefits of social insurance approaches without incurring their associated setup costs. Those benefits are primarily around taking a long-term view of both finances and client welfare, and organisations having the right incentives to guide effective early intervention.

A combination of the full inter-temporal version of the investment approach (section 9.2), a devolved architecture (Chapter 5), and a client-enrolment model should offer these benefits.

F9.5 A combination of the full inter-temporal version of the investment approach, a devolved architecture and client enrolment would offer a long-term view of both finances and client welfare, and provide organisations with the right incentives to guide effective early intervention. Such a combination is more attractive than social insurance models.

Chapter 10 explores such a combination in the context of that part of the population in most need of more effective social services.

10 Integration for more effective services

Key points

- Social services and the organisations that deliver them have developed historically to become highly specialised. This reflects strong lines of political accountability and economies of scale in the administration of government services; and the role of specialised knowledge and skills and evidence-based methodologies in many parts of the social services system.
- Strong specialisation in government administration and the social services make it difficult to exploit service synergies across administrative and professional boundaries. At the same time, specialisation in services makes it more difficult and costly for clients to get the mix and sequencing of services that best meet their needs.
- Integrating social services has a spectrum of approaches, ranging from simple coordination and cooperation among service organisations, to full integration of services through joint ventures or merger of organisations.
- Integration has both costs and benefits that vary according to client and service characteristics. Commissioning organisations and service providers need to weigh these up when deciding how much integration to pursue and by what means.
- Service fragmentation has been a long-standing issue in the social services; and governments have tried numerous integration initiatives to ameliorate its effects. Further initiatives should focus particularly on areas where the net benefits of integration are likely to be strong.
- Social services systems with complex, inter-connected service pathways offer opportunities for big gains in efficiency and effectiveness through better integration. The health services overseen by District Health Boards are examples of service systems with complex, inter-connected pathways.
- Client-directed budgets offer an effective mechanism to integrate services for clients with complex needs who are able to identify and access, for themselves, the services that best meet their needs (quadrant C).[105]
- Services for the most disadvantaged New Zealanders with multiple, complex problems (ie, quadrant D) have been the target of many ad hoc integration initiatives. Such initiatives have largely failed to resolve the problems of service fragmentation. The initiatives have generally failed to devolve decision rights over an adequate budget to those working with clients. These problems have been compounded by multiple integration initiatives potentially targeted at the same clients.
- Government and service-commissioning agencies should review the system architecture and service models they employ in the design of integrated services for the most disadvantaged New Zealanders (quadrant D). The architecture needs to provide for devolved, client-centred service design; local navigation services with adequate budgets; clear accountability for improving client outcomes; and information systems to support decisions.
- District Health and Social Boards and a Better Lives agency are two models that would devolve budgets, decision making, and assistance in navigating services, to provide more effective integrated services to the most disadvantaged New Zealanders (quadrant D). The Government should undertake further work to develop those models or variants to a point where it can decide which model or variant offers the best way forward.

[105] See Chapter 2 for a description of the quadrants. See Chapter 11 for more information on client-directed budgets.

This chapter discusses commissioning choices to get better outcomes for clients from available resources by providing an adaptive and timely response to needs through a flexible suite of integrated services. It looks at what sort of institutional architecture and what service design will best achieve efficient and effective integrated services in particular conditions. The best architecture and service design will vary by client characteristics, the nature of the services they need to meet their needs and the ways in which the services inter-connect.

The chapter identifies opportunities for large gains in efficiency and effectiveness of services by better integration in:

- mainstream services that involve complex, inter-connected pathways (eg, services covered by District Health Boards (DHBs)); and
- services for the most disadvantaged New Zealanders with multiple, complex needs.

The chapter introduces two models for addressing the needs of the most disadvantaged New Zealanders with multiple, complex need and recommends further work on developing a model for introduction.

The chapter notes that client-directed budgets (CDBs) are a good solution to integrating services where a client with complex needs (or their agent) has the capacity to navigate the services they need (Chapter 11).

10.1 Why is integration of services important and where is it most important?

Integration to get better outcomes from available resources

Organisations and businesses can choose different strategies to get the most out of the resources at their disposal. They can specialise and develop expertise in producing particular types of goods or services, becoming more efficient through developing *economies of scale*. Or they can choose to diversify, taking advantage of the synergies in the production of different types of goods and services, building on *economies of scope*.

Most government organisations and many social services organisations have developed historically to become specialised to take advantage of economies of scale. For instance, Work and Income, a service line of the Ministry of Social Development (MSD), is highly specialised in administering the income support system and associated employment services. The health system has many independent specialised personnel who have spent years training for a narrowly defined area of practice. Strong lines of accountability through particular Ministers to Parliament and statutory requirements governing particular services reinforce specialisation in government organisations (Chapters 2 and 4). Scientific and technical knowledge and skills and evidence-based methodologies reinforce specialisation in many parts of the social services system.

Strong specialisation in social services can pose problems from two points of view.

- Opportunities to exploit synergies in the production of services are lost, meaning that fewer services are produced from available resources.
- Clients find it difficult and costly to get the mix and sequencing of services that best suits their needs. As a result, services are less effective in improving outcomes than if they were better integrated.

The Taskforce on Whānau-Centred Initiatives, for example, noted:

> [L]ack of coherence between sectors, and even within sectors, has led to multiple separate contracts, each with different reporting requirements and expectations that have precluded an integrated approach to service delivery. (2010, p. 20)

Alzheimers New Zealand's submission considered that in the health sector, "there is very little collaboration or integration in provision at either a private or community organisation level" (sub. 27, p. 4).

Specialisation has occurred because it has strong advantages in the production of efficient and effective services. Better integration across service organisations and across services can mitigate the disadvantages of specialisation.

Integration occurs across a spectrum of approaches and has costs as well as benefits

Integrating services has a spectrum of approaches, ranging from simple cooperation among service organisations, through collaboration, to integration of the organisations involved in service delivery. Integration could ultimately mean a single organisation serving a defined population across a range of different types of services; or it could involve separate organisations sharing information on clients and services and using agreed protocols for allocating services to clients:

> Integration takes many forms, and may include (at one end of the spectrum) a shared plan, or co-location of services, but may also extend to be an integrated delivery approach (with joint planning and joint delivery). (Social Sector Trial leads, sub. 126, p. 14)

The best approach will depend on the relative cost and benefits perceived by commissioning organisations, service providers and clients. These will vary according to factors such as client characteristics, the range, nature and best sequencing of services they require, the involvement of different professional disciplines in the delivery of services and access to them, and whether services are likely to be needed for a short time or over an extended duration. Changing technology and the changing configuration of the social services system mean that answers to whether, and if so how, to integrate services are likely to evolve over time.

The benefits and costs of integration can fall unevenly on different parties, which will affect their willingness to engage. Arrangements that benefit one party may not necessarily produce overall net benefits. Conversely, an arrangement that has overall net benefits may not produce benefits for all parties involved. To get the best from integration, analysis of the costs and benefits needs to be independent and supported by a shared commitment from all parties to seek the highest overall net benefits.

The benefit of integration, and the best approach to achieving it, is one issue that commissioners and providers of social services need to consider when commissioning and designing social services. Service integration should only be pursued to the extent that its benefits outweigh its costs. Not everything can be integrated – the integration of some activities may preclude the integration of others, or at least impose additional costs on them. The challenge is therefore to find the optimal organisational arrangements that minimise the overall costs of fragmentation.

F10.1 Integrating services has costs as well as benefits that vary according to circumstances. Commissioning organisations and service providers need to weigh up the costs and benefits when deciding on how much integration to pursue and by what means.

A single approach to integration will not fit well with the large variety of circumstances that operate across the social services system. This chapter focuses in particular on services and client groups where the scope for gains from a better approach to integration appears to be particularly high.

Opportunities to integrate for more effective services

Looking for opportunities to exploit economies of scope in the production of services should be part of the toolkit for managers in the public sector. Processing of people at the border is a good example of successful integration that bundles customs, immigration and some parts of biosecurity requirements into a single streamlined process. The Integrated Data Infrastructure brings together de-identified, individual-level data held by a wide range of government agencies to provide a powerful tool for research and evaluation (Chapter 8). Parents registering a birth can now obtain an IRD number for their child at the same time.

Social services are no exception. Concerns about fragmentation in the social services in New Zealand have been long-standing (Box 10.1), suggesting that the problem has no easy or general solution.

Box 10.1 **Timeline of fragmentation concerns**

1910

> If there is one thing about which those who have made a special study of the difficult problems connected with the administration of charity are agreed upon it is the need of co-ordination and co-operation. (*The Dominion*, 1910, p. 6)

1920

> A brief examination of the present position shows that destitute and dependent children are dealt with in a somewhat haphazard manner. There is no controlling authority, and an utter lack of co-operation and co-ordination even between Government Departments, without including the work carried out by Charitable Aid Boards and the social services agencies of the various Churches. (Officer in charge of Special Schools Branch, 1920, p. 13)

1950

> It is safe to say that we of the State services had long regarded ourselves as the only pebbles on the beach, and we knew little or nothing of the good work being carried out by the Salvation Army and other church and civic agencies. David Marsh [an English professor, speaking to a 1950 conference] was provocative and merciless. He made us give a faithful account of what we were doing and what we weren't, and almost literally made us rub noses with every other agency … I found the whole experience most vitalising and I'm sure this early conference set the basis and tone for such [an] understanding and co-operation between social workers in New Zealand as may never have been known. (Lorna Hodder; in McDonald, 1994, pp. 50–51)

c1958

> In its own initiatives the Social Security Department found that one family could be visited by a number of social workers from other departments, none of them aware of what the others were doing. (McClure, 1998, p. 148)

1972

> There is also a need for a reasonable degree of coordination between the State services and those of voluntary organisations themselves, if only to ensure that money given by the community, either from taxation or from private contributions, is not wasted, and that the manpower available is used to good advantage. But a strict degree of co-ordination is unlikely to be reached, nor would it necessarily be beneficial. (Royal Commission of Inquiry on Social Security in New Zealand, 1972, p. 380)

1976

> The lack of co-ordination in the provision of social services in New Zealand was frequently pointed out to members of the Taskforce … The lack of co-ordination is not limited to interaction between Government departments: it is even more in evidence between departments, local bodies and voluntary agencies. (1976 Taskforce on Economic and Social Planning; quoted in New Zealand Council of Social Service, 1978, pp. 38–39)

F10.2 The fragmentation of social services is a long-standing issue that has proven difficult to resolve despite many attempts.

Yet, opportunities exist to exploit economies of scope at all levels in the social services system, from day-to-day service provision through to commissioning services and the choice of system architecture and service models. Awareness of these opportunities and problems of fragmentation has led to numerous past and recent attempts to strengthen horizontal links in the administration and production of social services. John Angus referred to "a succession of new cooperative initiatives with aspirational programmes and even more aspirational names" (John Angus, sub. 109, p. 7). Figure 10.1 sets out some examples from the last 15 years.

Figure 10.1 Government integration initiatives, 2000–2014

More recently, Better Public Service (BPS) initiatives have specified broad outcomes and targets to focus the attention of public sector agencies, clarified high-level collective leadership responsibilities (Chapter 2) and improved flexibility in high-level budget allocations (Chapter 5). Many other initiatives have aimed in various ways to provide more "joined-up" services on the ground (section 10.3).

Where are the gains from integrated social services likely to be greatest?

While commissioners and providers of services have many opportunities to improve links and better coordinate and integrate social services, the benefits need to be weighed against the costs. Effort should be focused where the potential net gains are largest. And, where possible, and in these cases in particular, integration should address the root causes of fragmentation, rather than creating yet another set of ad hoc "joined-up" services initiatives.

Fragmentation that prevents efficient and effective social services is a particular challenge in two situations. The first situation is where services are provided as a complex set of inter-connected options, with many pathways that need to be matched and sequenced to a client's particular circumstances as they evolve over time. Budgetary and professional boundaries may reinforce fragmentation. If the service system is not well-integrated, services may be provided without considering the most efficient and effective means to meet the client's needs over time. This both increases the costs of providing effective services for a defined population, and achieves worse outcomes for individual clients than in a more integrated system of services. Health services overseen by DHBs illustrate these characteristics (section 10.2). Together these services account for a large proportion of all social services spending.

Fragmentation of services also poses a particular challenge where clients experience multiple, complex problems, with uncertain causes and unpredictable outcomes. These problems typically involve interaction with multiple types of social service. Fragmented services make it difficult to provide the best mix of services at the right time for such clients (section 10.3). Without integration, a high risk exists that services are ineffective and poor outcomes will persist. Clients with multiple, complex problems account for a significant proportion of social services spending and incur social and economic costs disproportionate to their numbers (Chapters 2 and 15).

Both types of service fragmentation have common origins.

- Multiple service responses to emerging client needs are possible. The challenge is to identify, sequence and access the best response available.
- Budgetary, professional and organisational boundaries make it difficult to provide the best response.

Solutions to these types of fragmentation in services are likely to be more successful if they combine:

- a client-centred focus – that takes the overall wellbeing of the client as the yardstick for success;
- a focus on using resources efficiently;
- dedicated budgets that cover the range of required services, so that providers and clients do not face unnecessary restrictions in choosing the best response; and
- a means to "navigate" the system, whether through information systems and protocols that help service providers and clients identify the best pathways through the system; or through a skilled practitioner acting in close concert with the client; or through a combination of both.

10.2 Addressing fragmentation in social services systems with complex, inter-connected pathways

The Commission has previously identified that integration opportunities are likely to be strong where services are linked together as a chain of services (NZPC, 2012, p. 34). For instance, as a frail older person ages, the type of health service they require changes. While initially a frail older person may need assistance at home with household tasks and personal care, if their health declines the person may require more specialised medical care. Integrating the provision of health services for older people provides health funders and providers with an opportunity to enhance the client's experience of continuity of care. It also encourages funders to consider whether complementary services such as fall-prevention programmes may avoid more costly hospital services down the track.

More generally, DHBs are responsible for local health systems with complex, inter-connected services covering:

- hospital care;
- primary healthcare;
- diagnostic laboratory and radiology services;
- mental health services;
- personal care and community nursing; and
- public health services.

DHBs have a high degree of discretion about how to use most of their funding. Love noted that

> the … DHB structure has a number of facets [particularly a structure which incorporates primary and secondary care] which may manifest as strengths or weaknesses, but the way in which this works out appears to be highly contingent upon local leadership and capability. (forthcoming, p. 19)

Love (forthcoming) documents the success of the Canterbury DHB in implementing "people centred health care" (PCHC) over the last decade or more (Chapter 3). Canterbury has adopted a unified budget approach, engaged clinicians and community leaders in identifying goals and best referral practice that focus on patient wellbeing, developed shared information systems to guide decision making, and applied resources where they will be most effective and cost effective in achieving better outcomes for patients. The approach has the features of a "shared-goals" model or "collective impact" service model (Chapter 3; Chapter 6).

Love (forthcoming, p. 40) draws out implementation lessons from the Canterbury experience, including the importance of:

- achieving "a common understanding of the need for change across a very wide range of people, both clinicians and managers within the health system, and community leaders from outside the health system";
- engaging clinicians, respecting their professional values and drawing on their expertise, in the design and implementation of initiatives such as the Acute Demand Management System (ADMS) and an alliance approach to service development;
- maintaining a consistent direction of travel over an extended period of time, with some of the initiatives underlying Canterbury's success having commenced in the 1990s or early 2000s;
- being flexible and focusing attention on areas where enthusiasm for change exists and beneficial change is most likely.
- taking a system-wide approach that is based on comprehensive planning for PCHC across a range of components of the health services, and which crosses organisational and professional boundaries;
- building an effective, shared information system; funding models; professional education and changing clinical roles to support a system-wide approach; and
- implementing initiatives at scale, rather than piloting (though some piloting was used).

PCHC produces tangible benefits for patients in terms of timeliness, convenience and appropriateness of care. For instance, new referral protocols and development of increased capability in primary care greatly increased the rate at which skin lesions were being removed by general practitioners (GPs) rather than in the hospital. "In 2007, 2 000 people waited an average of 196 days … to get skin lesions removed. In 2011, 4 100 waited an average of 53 days" (Timmins & Ham, 2012, p. 24).

Love (forthcoming, p. 42) considers the extent to which the Canterbury initiatives might be "generalisable". Some of the initiatives, such as ADMS and HealthPathways (Chapter 3), have already been adopted in other

parts of New Zealand and Australia. But Love noted distinct and beneficial differences in the way they have been undertaken in Canterbury and commented:

> [A] large caveat exists on the generalisability of much of the PCHC development done in Canterbury: if not implemented in a flexible fashion in which the right care for a patient is the first consideration, and in which funding and management mechanisms are the second consideration, these PCHC programmes will not have the full impact which they have achieved in Canterbury. Other jurisdictions … will have to consider whether they are able to commit to allowing resources to follow care in the way that is modelled in Canterbury, rather than for care to be inappropriately constrained by resources… If clinicians have not been well engaged, and feel professionally disenfranchised or in conflict with management, then even the best models of care will fail to produce a positive result.

The justice system has some of the same complexities as local health systems and is similarly amenable to using a shared goals approach to achieving gains in efficiency and effectiveness. The Hutt Valley Justice Sector (HVJS) innovation project, commissioned by the Justice Sector Leadership Board, brought together operational managers in the Hutt Valley from Police; Corrections; the Ministry of Justice; and Child, Youth Family to develop "a more joined up way of working, with agreement around common goals, and the shared focus and structure to achieve them" (Ministry of Justice, 2013, p. 4). The project commenced in 2012 and is now complete. A report on the project noted: "The Hutt Valley is exceeding national progress on all BPS [Better Public Service] measures except reoffending (which is a Wellington region measure), and has surpassed three of the four targets" (Ministry of Justice, 2013, p. 5).

R10.1 Government social service agencies should seek further opportunities to improve service efficiency and effectiveness through client-centred service integration initiatives in those parts of the social services system that have complex inter-connected pathways. This should build on lessons from initiatives like those at the Canterbury District Health Board and the Hutt Valley Justice Sector Innovation Project.

10.3 Addressing fragmentation of services for clients with multiple complex needs

Identifying where the net benefits of integration are highest

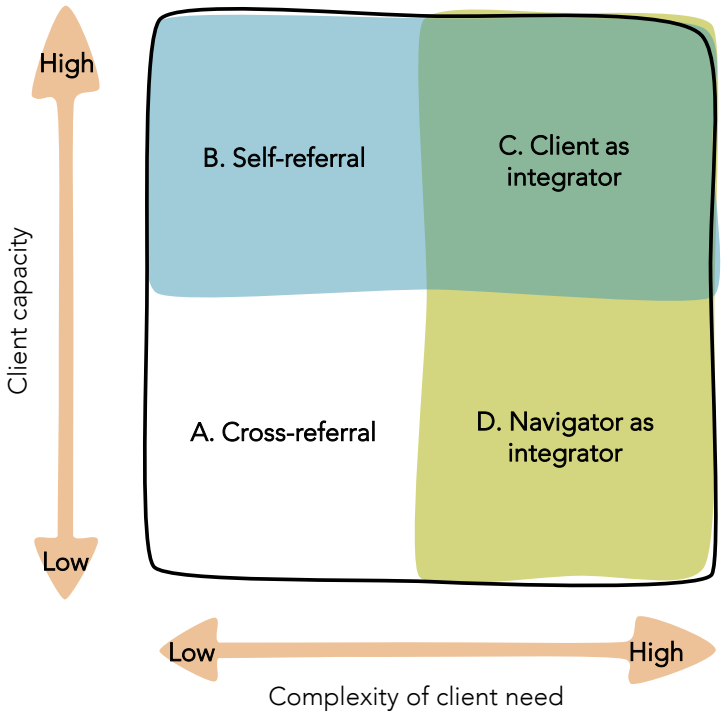
Commissioners and providers of services can identify the need for integrated services to avoid unacceptable client costs by considering a combination of:

- the complexity of the client's needs, in particular whether meeting them requires prioritising and sequencing multiple and organisationally separate services; and
- the capacity of the client to identify, prioritise, sequence and access the best mix of available services (Figure 10.2).

Clients who are confident and able to make their own service choices, and have relatively simple needs (quadrant B) are efficiently served by relatively separate services. These people are generally happy to identify the services they need (such as early childhood education, schooling or tertiary education) and to connect to them. They may regard choice of service or provider to be more important than service integration.

Clients who have relatively simple needs, but find it difficult, by themselves, to identify and access the service choices they need (quadrant A), may need assistance in service selection. Their needs may be best met by an efficient and well-informed referral system, such as that provided by GPs for specialist services. It is important to note that such clients may be perfectly able to make their own choices for other types of services. Managed markets, in-house provision and shared goals service models can work well for such clients.

Figure 10.2 Characteristics of people interacting with the social services system



Integrated services for clients with multiple, complex needs

The needs of clients with complex needs will be best met through some sort of integration. Service integration requires deep knowledge of both the client and the available services. Where the client (or their trusted agent) is both able to and motivated to make their own service choices (quadrant C), they are likely to be the best integrator. Giving those clients control over a budget enables them to be the integrator (Chapter 11).

Clients with complex needs who lack the experience, information or social supports to integrate services for themselves (quadrant D) require assistance to prioritise, sequence and select services (Box 10.2). Quadrant D contains a small proportion of individuals, families and communities. While this group generates high costs for the system, more important is the long-term harm and the loss of human potential they suffer. This is the group of most disadvantaged New Zealanders that the current social services system largely fails to serve well (Chapters 2 and 4).

Chapter 4 discusses how fragmented services cause significant difficulties for quadrant D clients and waste scarce resources. Fragmented services lead to wasteful duplication of processes, muddled diagnosis of issues, poor sequencing of services and client frustration. Poor diagnosis of issues and the complexity of client needs mean that clients pass from one service to another, without resolving their problems. This increases overall demand for, and the cost of, services.

Box 10.2 **Clients with multiple, complex needs and requiring help to integrate services**

While many people need help with dealing with social or health issues at some time in their life, a smaller proportion of individuals and their families experience persistent and multiple social and health problems. Sometimes these problems may even be inter-generational:

> The consequences for quality of life of having multiple disadvantages far exceed the sum of their individual effects. (Stiglitz, Sen & Fitoussi, 2009, p. 15)

Multiple problems interact with each other and make it challenging to find solutions. A family with mental health, housing, truancy and domestic violence problems typically needs more than access to mainstream health, housing, education and violence prevention services. The family may need all these

services over time, but right now these problems and their interactions can create chaos in their lives. Mainstream services risk being impotent in the face of such chaos.

Such families are in need of a different type of approach – a "navigation service". Essential elements include:

- building a relationship of trust with the family;
- understanding the family, its history and wider social context;
- understanding the aspirations of those in the family and the strengths and resources they might be able to draw on;
- assessing the needs of those in the family;
- knowing what services are available and their likely effectiveness;
- having adequate resources and the authority to access needed services including mainstream services; and
- prioritising and sequencing a tailored response.

The navigation service is bespoke – those in families vary in their needs and resources. The navigation service may be needed for months or years.

Substantial service integration already happens at the level of providers dealing directly with clients. Providers holding multiple contracts for multiple services attempt to join up those services and tailor a package to suit each client. For instance, the Wise Group takes a "whole-of-person" approach to providing employment services for people with health challenges. These are "integrated with 60 different clinical and NGO services around the country" (sub. 41, p. 13). Integration is effected by aligning individual employment support, treatment and wellness plans. Similarly, the provider described in Figure 2.11 integrates services for its clients, across 15 programmes funded by five different agencies. Such attempts are constrained by prescriptive eligibility criteria and reporting requirements imposed by a variety of funders and their contracts. Providers also refer clients to other services and providers. These arrangements succeed to at least some degree, but appear to be unnecessarily complex and administratively costly (Chapter 2).

Past integration initiatives targeted at the most disadvantaged New Zealanders

A large number of "integration initiatives" operate across and within social services agencies (Figure 10.1). Many of these are "person-centred" or "family-centred" programmes with "joined-up" services, "local" decision making and pooled budgets, targeted at the most disadvantaged New Zealanders (Box 10.3). These are the quadrant D clients with multiple complex needs, who require assistance in navigating services.

Box 10.3 **Selected integration initiatives targeted at the most disadvantaged New Zealanders**

The service Strengthening Families is available on a voluntary basis to families needing help from more than one agency to deal with a range of issues. Sixty Local Management Groups and Strengthening Families Coordinators are located around the country, and eleven government agencies and hundreds of community-based services are involved. The service operates by appointing a main contact person to work with a family and the agencies involved. A family meeting is held to develop a plan, and the contact person is responsible for following up to check that agencies have carried out agreed actions. Strengthening Families is not available to families where suspected child abuse or neglect is an issue (MSD, 2015d). Strengthening Families originated as a major government initiative in the mid-1990s that was aimed at developing "seamless services for 'at risk' children and young people from 0 to 17"(DSW, 1997c, p. 2).

Social Sector Trials (SST) were initiated in 2011 and progressively extended to 16 sites around the country. The trials aim to better "join up" local services to achieve outcomes in their chosen areas of focus. Many of the trials have focused on improving outcomes for young people involved in crime or truancy; others have chosen to focus on health issues. The trials have been extended to June 2016, pending a review of how they can work alongside other initiatives such as Children's Teams and Whānau Ora (MSD, 2015e).

Whānau Ora was launched in 2010 and provides integrated services to whānau (Chapter 13; Appendix C). The programme aims to empower whānau by helping them to identify their goals and develop plans to achieve them. Navigators have played a significant role in helping whānau access the services that they need. Whānau Ora does not have a well-defined target group (any whānau is eligible). Yet many whānau with multiple, complex issues likely participate in the programme.

Children's Teams coordinate local services for vulnerable children at risk of abuse and neglect who do not meet the criteria for statutory child protection interventions. Introduced in 2013, there are now 10 Children's Teams mostly located in provincial centres. Children's Teams comprise senior practitioners and professionals from key agencies, including iwi/Māori, health, education and social services. Local Children's Teams appoint a Lead Professional to bring together a specific Child Action Team tailored to the needs of a specific child and their family (Children's Action Plan, 2015).

Year 9 Plus is a 2015 Budget education initiative to test the concept of using risk factors to identify the most at-risk Year 9 students and providing "intensive wrap-around support" aimed at improving their educational outcomes. The "concept test" is providing support to a single cohort of 80–100 students in Gisborne (MoE, 2015b, p. 6).

Continual experimentation with such "joined-up" initiatives reflects a deeply perceived need to address service fragmentation. However, success with such initiatives appears elusive. And where success is acknowledged, scaling up and sustainability have proven problematic.

Problems with ad hoc integration initiatives

Despite good intentions, most attempts at integration have had one or more problems.

Integration sometimes has *high coordination costs and so low sustainability.* For instance, some integration initiatives involve "joining at the top". At its inception in the mid-1990s, Strengthening Families involved close ongoing attention and cross-agency coordination among senior executives, as well as regional forums involving senior local government people. The current programme involves coordination at a lower level within government agencies, and correspondingly more modest objectives (Box 10.3). The role envisaged in the 1990s for Strengthening Families has now been taken over, at least in part, by more recent initiatives (eg, the Children's Action Plan and the Children's Teams, which involves Ministerial, Chief Executives' and Deputy Chief Executives' committees; and inter-agency working groups). Initiatives with high coordination costs, particularly at senior executive level, find it difficult to sustain momentum over time.

There is *limited ability to scale up* many ad hoc integration initiatives. For instance, some initiatives (eg, the HVJS innovation project, and the SST (Box 10.3) excise some layers of middle management to get traction on the ground. Because the administering agencies rely on middle management to extend services across the country, such models can be difficult to scale.

Local navigation services often have *inadequate budgets and contributing agencies are unwilling to pool budgets.* Typically, a lead agency provides administrative control and most of the funds available to the local navigation service (eg, Whānau Ora, Chapter 13; Appendix C). Other agencies may make little (if any) financial contribution to support integration. This might reflect "turf wars" or that pooled budgets magnify rather than reduce political risk for Ministers and agencies. Where accountability for spending still resides with individual agencies, a contributing agency may feel it is safer to retain control of its own financial resources. Resistance to pooled budgets is also consistent with Ministers' incentives to create "branded" initiatives. Enabling Good Lives (with two agencies sharing the programme costs) is perhaps the only real

working example of pooled budgets operating in New Zealand (Appendix D). Whānau Ora illustrates the problem with dedicated budgets that do not match the needs of its potentially broad target group. Whānau Ora has been allocated about $50 million over four years (Chapter 13):

> Siloed funding streams continue to be a hindrance to working in integrated and family centred ways where providers are only able to deliver what is specified in their contract despite being well placed to address a range of needs for a family. (Alliance Health Plus Trust, sub. 119, p. 3)
>
> Under current silo contracting arrangements staff are assigned to services based on contracted [full-time equivalents]. This causes functional silos which impinge on delivering a cohesive package of interventions. This is a particular barrier when the organisation wants to redeploy across ministry contracts. E.g. social workers from MSD contracts cannot support whānau in crisis that have been hooked through a GP service unless they have care and protection issues and redeploying them may mean a penalty from the funder. (Te Taiwhenua o Heretaunga, sub. DR189, p. 3)
>
> Over-specification of contract deliverables drives people to remain only within the scope of the contract, which may not encourage integration. For example, the differentiation of primary and secondary health spend – it may be better to allow a percentage of spend more frequently to flexibly work in the margins between the two. (Platform Charitable Trust, sub. 45, p. 17)

There may be *difficulties in achieving shared goals and common objectives* across agencies that contribute resources. A "shared goals approach" (Chapter 6) is easier to implement with a single funder, but currently the narrow scope of dedicated budgets limits its effectiveness in integrating services. The approach takes time and sustained focus to implement successfully.

Contributing agencies can have conflicting priorities. Typically, agencies involved in an integration initiative have their own service objectives and priorities. Where each agency retains control over its services, navigators may have difficulty in accessing the services that clients need. Some initiatives give a navigation service priority access to resources, with a mandate to override other claims on those resources (as provided for in the design of Children's Teams). Yet this approach ignores the benefits that can be achieved from alternative uses – so the net benefit from a priority call on resources might be negative.

Multiple overlapping integration initiatives create confusion and waste resources

Further problems arise when multiple integration initiatives are potentially targeted at the same families. If initiatives are attempting to integrate the same social services, there is the potential for competing timeframes for integration, two sets of acronyms to master, turf wars between groups running the initiatives, wasted resources and confusion among clients.

The problems caused by multiple integration initiatives targeted at the same clients is evident in practice. Whānau Ora is one of many programmes attempting to integrate service delivery and use a navigation/lead practitioner approach (Chapter 13; Appendix C). Children's Teams and SST are two other prominent examples. It was put to the Commission that if the Government is going to take a joined-up or "whole-of-government" approach, it ought to be one approach in one place. In relation to SST, the Minister for Social Development recently noted:

> With a view to adopting permanent structures, over the next twelve months we will take a close look at what is effective in the trial areas and analyse how the trials can work alongside other initiatives such as Children's Teams and Whānau Ora, in the changing social sector landscape. (Minister for Social Development, 2015a)

Te Roopu Waiora Trust took the opportunity to find humour in the situation:

> Minister Adams recently announced the formation of a high level ministerial group to coordinate every intervention in the family violence space using a single point of reference. However with housing, health and disability sectors taking a similar approach on specific and critical issues, the need to then coordinate coordination becomes apparent. (Te Roopu Waiora Trust, sub. 97, p. 6)

Navigation services by themselves do not necessarily solve the problem of integrating services:

> From the perspective of whānau, sector based coordination or locality case management merely shifts service fragmentation to another level and serves no real purpose. With Whānau Ora offering a similar approach through navigation, the aim of all these initiatives is to manage whānau through an array of

> complex, fragmented service interventions. The focus and resource investment is therefore channelled towards navigation or coordination; instead of addressing the reason why such approaches are needed. (Te Roopu Waiora Trust, sub. 97, p. 6)

F10.3 Multiple and overlapping integration initiatives designed and initiated by government social services agencies can result in confusion, frustration and a strain on scarce resources.

A review of system architecture and choice of service model is needed

In summary, a range of current approaches to integration of services has failed to provide for sustained and comprehensive support for the most disadvantaged New Zealanders (quadrant D clients). This is largely because service providers have been given neither substantial decision rights over an adequate budget, nor the flexibility to design and deploy services as clients' aspirations, needs and capabilities evolve.

F10.4 The persistent influence of administrative silos has hampered current approaches to integrating services to the most disadvantaged New Zealanders (quadrant D). Current approaches generally do not devolve decision rights over an adequate budget to those working with clients. Multiple integration initiatives targeted at the same clients have compounded these problems.

The Social Sector Board (SSB) told the Commission, in relation to services for the most disadvantaged New Zealanders (quadrant D) "there is a sense that we have taken collaboration about as far as we can for this group … at a SSB strategy session there was discussion about the need for some form of external commissioning model to move things forward" (SSB, sub. DR225, p. 5).

The Government should undertake a review of system architectures and service models that will support effective services for clients with multiple, complex needs who need assistance in navigating services.

10.4 System-architecture and service-model requirements to meet the needs of the most disadvantaged New Zealanders

Effective services for clients with multiple and complex needs, and the most disadvantaged New Zealanders (quadrant D clients), need to have the following characteristics:

- decision making close to the clients (ie, by those with information about their specific and evolving circumstances);
- capability to engage with the family/whānau and their wider social context;
- a "navigator" (or equivalent) to prioritise and sequence services;
- a dedicated budget that is adequate to cover the range of services needed; and local decision rights over the use of that budget;
- allocation of resources to where they have the most effect, and information to support allocation decisions;
- devolution (so that close Ministerial and departmental control does not lead to over-reaction to individual cases, or to the over-specification of services);
- sufficient contestability to reward good providers and replace those that are not delivering; and
- experimentation and learning.

The features listed above serve as a guide to the essential features of a system architecture and service models that will best provide effective services to the most disadvantaged New Zealanders. The rest of this section sets out the principal characteristics of a system architecture to support effective services to quadrant D clients.

Client-centred service design and implementation

Quadrant D clients have multiple, complex problems that interact in unpredictable ways and pose a challenge to finding effective solutions. Solving such problems requires a service that can respond flexibly to emerging issues and developing client capabilities and aspirations. The service needs to keep trying new approaches based on a close understanding of the client and their wider family/whānau situation. In effect, close client involvement is needed in the design and sequencing of effective services. Effective adaptive services cannot be designed at a distance from the client.

Client-centred service design is a feature of the Government's Whānau Ora initiative. Whānau Ora enables whānau to set the outcomes they want to achieve from engagement with service providers. Through the whānau planning process, they can choose the services they need, and take other actions to achieve those outcomes (Chapter 13; Appendix C).

A defined population

Quadrant D clients are often difficult to engage; services to address their needs are relatively intensive and therefore costly. If successful, services can produce significant benefits for the clients themselves, their wider families and other members of their communities. Services need to be carefully targeted based on need and the prospect of achieving a good return on resources used.

Targeting of investments is likely to work best if a commissioning agency has clear responsibility for serving the needs of a defined population. The population could be defined in terms of factors that increase the risk of poor outcomes. In turn, service providers would need to engage (or enrol) members of the defined population. Assessment of the needs of an enrolled client would shape the resources that are allocated to buying services for them.

Identifying different segments of a defined population would allow the staged introduction of a new approach to providing services to the most disadvantaged New Zealanders. Segments could be identified by life-stage (eg, children aged under five; or youth). This identification would let commissioning agencies and providers focus on and develop a deeper understanding of the investment opportunities and types of services that are likely to best meet the needs of particular groups.

Devolved decision rights over a dedicated budget

An agency commissioning services for clients with multiple, complex needs (quadrant D clients) needs a dedicated budget that has a well-defined purpose. The budget needs to be adequate to meet the cost of the services required for the defined population. Decision rights over the use of the budget should be devolved to a navigation service close to the clients. Local decision rights over use of resources is essential to support flexible client-centred service design and implementation.

An accountability and decision-making framework that prioritises investments to best achieve outcomes

A commissioning agency should be accountable for improving outcomes for its defined population, recognising that this will not be as easy or as fast as for other client groups. It will need to have a decision-making framework that helps it to allocate resources to where they will have best effect in terms of improved outcomes for clients. An expanded investment approach would provide such a framework (Chapter 9), but would need to be adapted to support devolved decision making about service design and implementation. The framework would be guided by information about expected client outcomes, the availability of effective interventions to improve those outcomes, and information on the effect of services in improving outcomes.

The commissioning agency would work out a means to reward providers for helping clients achieve better outcomes. It would need to monitor the success of service providers in engaging members of the defined target population.

Information systems to support decision making

The agencies with stewardship responsibility for the social services system would need to build information networks to provide timely client-centred data to help with investment decisions. Commissioning agencies and providers should be able to monitor and obtain feedback on service performance, and track the improvement in client outcomes as a result of the services they receive. The networks would include administrative data held by government agencies that would allow client progress to be identified cost-effectively and securely (Chapter 8). The Commission recommends that the SSB continues to have responsibility for coordinating the development of a wide-access, client-centred information network (Chapters 8 and 14).

Building a shared culture across service providers and decision makers

Commissioning agencies of services for quadrant D clients and local navigators will be purchasing services from a variety of providers including, possibly, from providers of mainstream services. It will be important to build a shared culture across multiple agencies and professional disciplines that is focused on achieving the best outcomes for clients:

> Within health and social care services, organisational leadership is fundamental to achieving a shift in culture that will lead to effective integrated models of commissioned care. The focus of change efforts must be on improving outcomes and not on changing organisational structures, however where structural change is required, commissioning agencies must be able to support/resource those changes to occur. (Alliance Health Plus Trust, sub. 119, p. 3)

> For service integration there needs to be shared values and goals. If these are not in line the integration is likely to fail in the long term. (Community Networks Aotearoa, sub. DR236, p. 11)

R10.2

To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should devolve authority over adequate resources to providers close to clients. To be effective, this devolution would require:

- an adaptive, client-centred approach to service design;
- commissioning agencies to have responsibility for a defined population;
- commissioning agencies and providers to have clear accountability for improving client outcomes;
- commissioning agencies to have a way of prioritising the use of resources; and
- an information system to support decision making.

10.5 Two possible models to address service integration for the most disadvantaged New Zealanders

A variety of commissioning arrangements and service models might provide the features set out in section 10.4 to provide for effective services for the most disadvantaged New Zealanders (quadrant D clients). While this section describes and compares two such models – a "Better Lives" agency and "District Health and Social Boards" (DHSBs) – the Commission recognises that other variants could also be worth investigating. These could include, for instance, hybrids of the two models, or a model based on Primary Health Organisations (PHOs); or on PHO-like arrangements for the social services (The Methodist Mission, sub. 4).

Some government agencies have proposed the use of joint ventures between themselves as a means to provide integrated services to disadvantaged New Zealanders. The Commission considers that this

approach would have difficulty in meeting all the requirements of an effective integrated service. In particular, based on experience with models such as Whānau Ora, the parent agencies involved in a joint venture model are likely to maintain control over their contributions to a shared budget, and limit service providers' local discretion over a budget that is adequate to support client-centred decision making.

The Better Lives agency model

This proposal is for a Better Lives agency to take responsibility for integrated services to the most disadvantaged New Zealanders. Other clients would remain the responsibility of mainstream social services agencies.

The closest parallel to the Better Lives agency in New Zealand is the Accident Compensation Corporation (ACC) and its responsibility for accident victims. Once an accident claim is accepted, the ACC carries long-term responsibility for that claimant, and can optimise its expenditure across silos and across time (Chapter 9). Further, it is in the ACC's interests to improve their claimant's situation to the point where they no longer require the ACC's support.

Another parallel to the Better Lives agency is the National Disability Insurance Agency (NDIA) in Australia, which carries long-term responsibility for an enrolled population (those with permanent disabilities) (Chapter 3).

Where the Better Lives agency sits within government

The Better Lives agency would have its own vote. While ultimately a large part of its budget would be funded by mainstream agencies receiving less, the Better Lives agency would purchase services for its clients from mainstream agencies. This would have the effect of making mainstream agencies more neutral about whether or not a specific individual or family is enrolled with the Better Lives agency.

The Better Lives agency should be under a Minister who is not responsible for a mainstream agency. Options include central agency ministers (ie, Finance, State Services, Prime Minister), or a new portfolio. The Department of the Prime Minister and Cabinet does not have an operational focus; and it is desirable that the Treasury maintain its ability to take an independent view of the allocation of resources across the social services system.

The Better Lives agency should have considerable independence. It could be a Crown entity similar in status and governance to the ACC.

The Better Lives agency will be responsible for clients in difficult circumstances, and short-term improvements will be elusive. The agency needs to be able to focus on its medium- and long-term performance, and not be overly responsive to short-term political pressure. The exact form of Better Lives agency's independence is relatively less important than the decision rights of its board.

Structure of the Better Lives agency model

Rather than provide services directly, the Better Lives agency would be responsible for the stewardship roles of high-level design, goal setting, standard setting, data gathering, monitoring and evaluation. It would engage a limited number of commissioning agencies. Each enrolled person or family would be the responsibility of a single commissioning agency. Such an agency would purchase services from navigators who work closely with clients and who, in turn, hold budgets to purchase other services for clients. Like the ACC, which purchases injury prevention services, a commissioning agency might also purchase services from other providers to improve outcomes for its defined population.

These commissioning agencies could be organised on regions or communities of interest. A combination would also be possible.

- A regional basis makes allocation clear and supports benchmark competition. But it would lack real contestability, as under-performing regional commissioning agencies would not face sanctions from client choices.[106]

[106] There would be some contestability at the margin, as clients may decline to engage with the commissioning agency or move to another region.

- A community of interest basis would support the empowerment of Māori, Pasifika and other population groups (Chapter 13). Larger non-government providers of social services (eg, Barnardos, the Salvation Army, and the Auckland City Mission) may also be interested in forming commissioning agencies at a national or larger regional level. This basis would support direct as well as benchmark competition.

A community of interest basis offers more client choice and contestability.

The Better Lives agency would allocate funding to the commissioning agencies, using an investment approach that takes account of the characteristics of enrolled clients and the potential for improving their outcomes through service provision. A finer-grained approach to guide allocations to navigators could involve a needs assessment carried out at the time that a family is engaged, and updated as required over time.

Commissioning agencies and navigators would be held accountable for results, but would not be constrained as to what types of services they purchase. For example, if community development was considered to offer the best strategy for dealing with the long-term problems of a cluster of families, then the commissioning agency could spend resources to achieve that result.

A defined population

The Better Lives agency would have responsibility for achieving improved outcomes for a defined population. The population could, for instance, be identified through observed risk factors associated with poor outcomes. Navigators would be responsible for engaging with, enrolling and providing services to members of the defined population. This could involve referral from another agency or self-referral.

An investment approach is a natural complement to having an enrolled population with long-term needs. This approach would guide allocations to families, and be the basis for performance measurement.

The new agency could start by focusing on segments of its defined population, and expand coverage as it gains understanding and expertise (section 10.4).

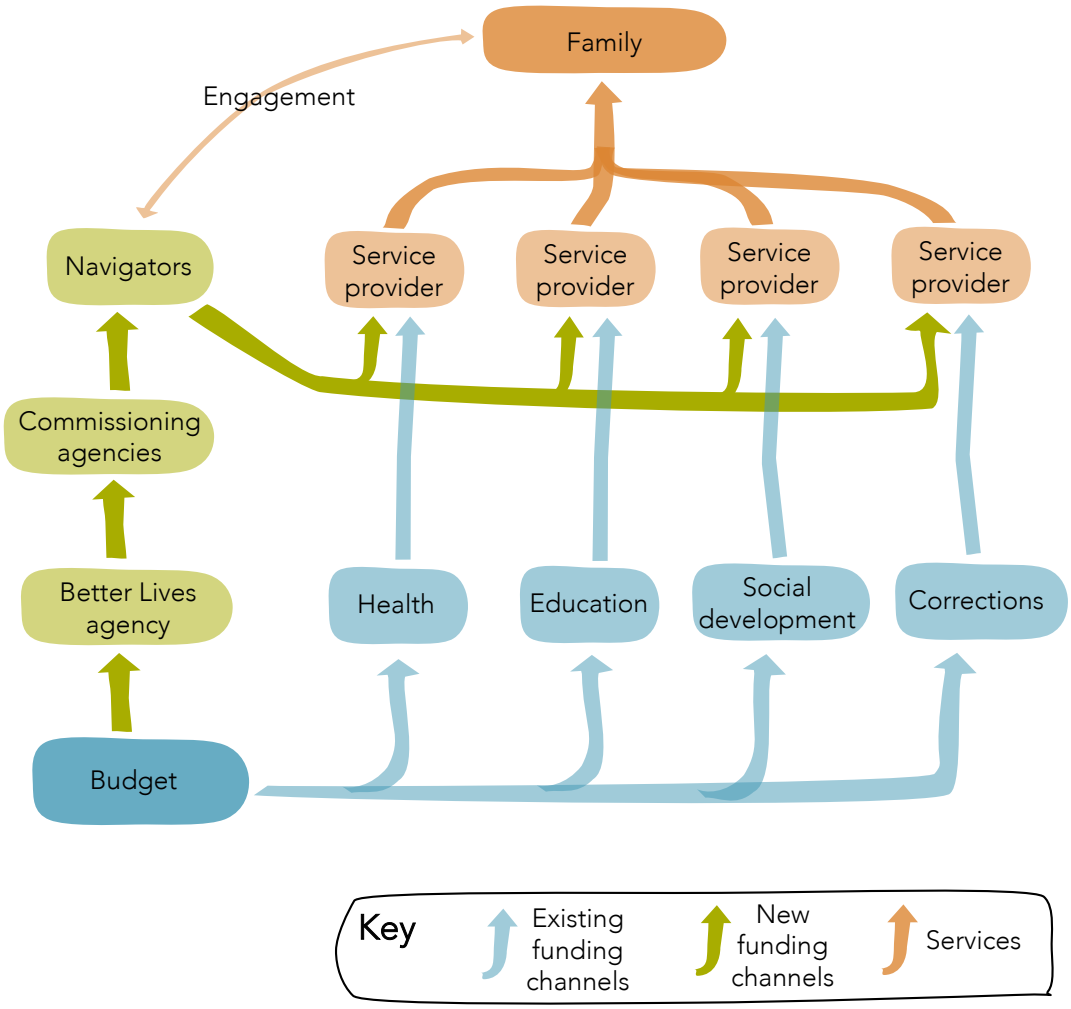
Relationship of the Better Lives agency with mainstream agencies

Under this proposal, the Better Lives agency pays for services (such as health, education and housing) required from mainstream agencies for its enrolled clients. Mainstream agencies would invoice the commissioning agencies for mainstream services purchased by navigators. The scope of these services would need to be defined, but they would likely be additional to mainstream services available to the whole population.

The role of commissioning agencies as independent purchasers would encourage service-oriented agencies to deliver high-quality, value-for-money services. First, such agencies would be free to choose alternative providers (eg, another health provider), which would put some competitive pressure on mainstream services. Second, the requirement to invoice for services increases transparency about costs and prices, which is an essential pre-condition to better understanding cost-quality trade-offs and value for money.

The Better Lives agency model does not mean that mainstream agencies should abandon service integration. First, they should be aiming for intra-agency service integration (eg, primary, secondary and tertiary healthcare). Second, they should still pursue cross-agency integration where that makes sense for target populations that might not meet the criteria for the Better Lives agency. This might include, for instance, CDB service models for people with disabilities (Chapter 11). Integration also makes sense where services provided in one agency produce benefits in terms of outcomes that are the responsibility of another agency (eg, mental health services may improve employment outcomes for people with mental health conditions).

Figure 10.3 The Better Lives agency model



Some advantages of the Better Lives agency model

- Community-of-interest based commissioning agencies should cope well with transient people moving from region to region.
- The Better Lives agency model is well suited to deliver many of the aspirations of Whānau Ora (Chapter 13; Appendix C), because of the clarity and focus from enrolment; and funding that matches the services needed to improve client outcomes. The Better Lives agency model is also better suited than Whānau Ora to meeting Pasifika aspirations.
- Mainstream agencies would have the opportunity to learn from the Better Lives agency approach, and refine their own services to better meet the needs of those requiring partly-integrated services.

Some disadvantages of the Better Lives agency model

- Engagement with the Better Lives agency, though voluntary, might be interpreted as "stigmatising" vulnerable people. Avoiding this would require skilful handling of client engagement and of communications.
- The model might let the mainstream service agencies "off the hook" for people with complex needs. Mainstream agencies might regard (cross-agency) service integration as another agency's problem that they can safely ignore.
- The model creates new boundaries, with some of the features of the boundaries between existing silos, and the problems of integrating across them. This could apply particularly as clients transition in and out of being enrolled with a commissioning agency.

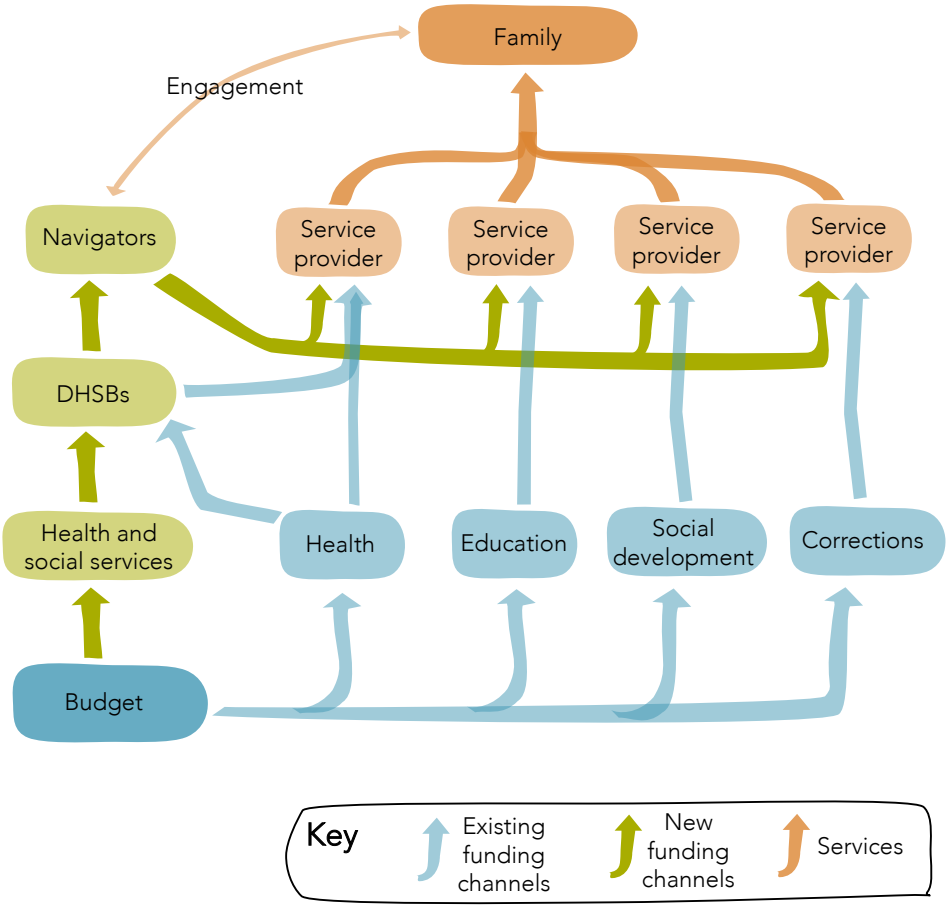
The District Health and Social Boards model

Existing DHBs would form the basis for new DHSBs. DHSBs would be directly funded from a new Vote Health and Social Services for services for the most disadvantaged New Zealanders (quadrant D, Figure 10.2), using a population-based formula that takes account of the prevalence of at-risk groups in the region. DHSBs would commission the mix of health and social services for this defined population. Funding from Vote Health and Social Services would be in addition to the funding that DHBs receive through Vote Health.

The DHSBs would be required to identify and be responsible for the most disadvantaged New Zealanders with multiple, complex needs; and to offer them navigation services as well as the mix of other services that flow from that (eg, mental health, housing, education, and budgeting services). The DHSBs would in effect commission services for their populations with high and complex needs who need help with navigating services. The designated navigator could purchase services either from other government providers or from non-government providers.

Short-term improvements will be elusive for many of those very disadvantaged clients. The DHSBs will need to be able to focus on medium- and long-term performance (as embodied in a set of regional health and social outcome indicators), and not be overly responsive to short-term political or budget pressures.

Figure 10.4 The District Health and Social Boards model



Notes:

1. The health budget would cover mainstream GP services, disability services, hospital and specialist care. The social development budget would cover income support, employment services and other statutory services, such as those provided by Child, Youth and Family.

How would DHSBs relate to other government structures?

DHSBs would operate similarly in many respects to current DHBs. In addition, they would take over some of the responsibilities that currently sit with MSD – broadly for all services that are targeted at helping the most disadvantaged New Zealanders. Mainstream income-support services and employment services would remain with MSD. Transaction processing of payments such as income support has strong efficiencies in

scale (MSD, sub. 224, p. 5). This indicates continuing with centralisation of income support payments, mainstream employment services, and of New Zealand superannuation and Studylink.

Other current roles of MSD and the Ministry of Health (MoH) should remain centralised (eg, the statutory roles of Child, Youth and Family; pandemic responses; international cooperation; and policy support). Roles that fall within system stewardship (Chapter 5), such as standard setting and leading development of comprehensive data networks, should also remain with these government agencies individually, or preferably, collectively under the SSB.

As with the Better Lives agency model, DHSBs through navigators would be able to purchase services (such as education and housing) from other mainstream agencies to meet the needs of the most disadvantaged New Zealanders. These services might not include mainstream services available to the whole population, but would include additional services from mainstream providers that enabled DHSB clients to achieve better outcomes in the mainstream.

The administration of a new Vote Health and Social Services would likely require a new ministerial portfolio and an autonomous unit within either MoH or MSD. The unit's prime functions would be stewardship of the DHSBs in their role of providing services to the most disadvantaged New Zealanders. The unit would be the conduit for Vote Health and Social Services funding to DHSBs.

PHOs and GP practices currently play important roles within DHBs as organisers and deliverers of primary healthcare. The Commission envisages these DHSBs might well commission PHOs and, through them, GP practices to take on broader roles to help address the needs of the most disadvantaged New Zealanders and most deprived neighbourhoods. DHSBs might also commission navigation services from providers specialising in working with a particular community of interest.

Some advantages of the DHSB model

- DHSBs would build on existing organisations and structures, with fewer of the risks of costly disruption and unintended consequences that come with completely new organisations. DHBs already offer services devolved to the level of 20 well-defined regional areas and populations.
- The existing DHB enrolment model would extend to social services. Some DHBs have already moved in this direction, recognising the influence of social factors and living conditions on health outcomes. The enrolment model would support benchmark competition on social outcomes for regional populations.

Some disadvantages of the DHSB model

- The current governance arrangements for DHBs are fragmented (Chapter 5). Board members appointed by the Minister of Health are accountable to the Minister. Elected board members have low visibility in their electorates. Being dismissed by the Minister may be a more salient risk to them than their performance being judged by the voters. A new governance approach would be desirable to get the benefits of devolution (such as a degree of insulation from political risk).
- Existing DHBs tend to be dominated by the needs of their "attached" hospitals. Some DHBs have mitigated this problem by emphasising their goal is the best possible health of their entire regional population and that primary care is a key contributor.
- Funding allocated on population-based formulas is complex and needs to provide adequate incentives for better performance. As with the Better Lives agency model, bringing an investment approach into service design and targeting would strengthen performance incentives.
- DHSBs may have less ability to shift expenditure over time than central government. To mitigate this risk, it will be important that funding arrangements enable DHSBs to take an investment approach to encourage early and other interventions with high health and social returns.
- A DHSB model would provide less scope than the Better Lives agency for the commissioning of services through organisations representing a community of interest. Yet DHSBs could devolve some commissioning tasks to such organisations, as currently happens with DHBs for some health services.

Transition

Establishing either of these models poses similar issues to the creation of the NDIA in Australia. Roll-out would need to be staged, and follow a learn-build-learn model (Chapters 3 and 7). Government should signal a commitment to the concept and a roll-out plan rather than a "stand-alone" trial or pilot. Stand-alone trials and pilots often end up stuck in administrative and policy cul-de-sacs.

The Better Lives agency or DHSBs would get quickly up to scale if they inherited responsibility for existing programmes that integrate services to clients with multiple, complex needs (eg, Whānau Ora, Children's Teams and SST). Yet the current governance and funding arrangements in these programmes are not necessarily a good match for either of the new models.

It may be better to close down under-performing programmes that are difficult to evaluate or scale; and to fold relevant parts of existing programmes into the new model. For example, the Whānau Ora commissioning agencies are possible candidates for becoming Better Lives commissioning agencies, subject to new governance and funding arrangements. As such, they could continue to maintain their strong kaupapa Māori orientation.

Comparison

Table 10.1 summarises the effect of the two models on services for the most disadvantaged New Zealanders, assessed against some key requirements set out in section 10.4.

Table 10.1 Comparison of the two models for services to the most disadvantaged New Zealanders

Desired features	Better Lives agency	District Health & Social Boards
Decisions close to clients	✔	✔ (partial)
Navigation services	✔	✔
Dedicated budgets	✔	✔ (partial)
Better resource allocation	✔	✔ (partial)
Family and social context	✔	✔
Devolution	✔ (Crown entity and below)	✔ (regional)
Accountability for outcomes	✔	✔
Contestability	✔	✔ (benchmark)
Experiment and learn	✔	✔

Either of these models involve a significant amount of re-structuring and associated level of disruption and distraction. Whether disruption and distraction are a good thing or not depends on the costs and benefits of change, and the political sustainability of reform. But an under-performing system is not likely to suddenly start performing without some level of disruption. Building on existing structures is less distracting and costly and perhaps less subject to unintended consequences – a point in favour the DHSB model.

F10.5 The Better Lives agency and District Health and Social Boards models each have potential to improve the effectiveness of social services for the most disadvantaged New Zealanders – those with multiple, complex needs who need help with navigating services.

R10.3 To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should assess and implement the most appropriate model of devolution. The Government should consider the District Health and Social Boards, Better Lives agency and alternative models.

11 Client choice and empowerment

Key points

- Chapter 6 highlighted the need for commissioning organisations to carefully consider the model of services delivery best suited to the characteristics of the services and its client base. In every model, choices are made about:
  - *what* services to deliver;
  - *who* will deliver the services;
  - *when* the service will be delivered;
  - *where* the service will be delivered; and
  - *how* the service will be delivered.
- Depending on the model, clients may have relatively little or relatively more control over these *core choices*.
- There is good evidence that, under the right circumstances, empowering people to make core choices significantly improves their wellbeing. Yet the Commission does not view client-directed service models as a panacea for improving all social services.
- Client-directed budgets are most likely to benefit clients with complex requirements that have the capacity and motivation to make informed choices about the combination of services that best meets their needs. These clients generally fall in quadrant C.[107]
- Voucher systems on the other hand, are most likely to benefit clients with relatively straightforward needs who – like those in quadrant C – have the capacity and motivation to make informed choices. These clients generally fall in quadrant B.
- Shifting the power balance towards clients, and away from the organisations that commission and deliver social services, could improve social outcomes. For this to occur, client choices need to influence the allocation of public money to providers.
- When using client-directed service models, government agencies need to invest time and resources into designing and implementing processes. Clients, or their representatives, should be involved in the design process.
- Designing and implementing a practical and efficient choice mechanism requires a deep understanding of alternative design options, and of the incentives and fiscal implications of choosing one option over another. For example, to avoid cream skimming, payments to providers need to reflect the complexity of individual client need.
- Shifting to a client-directed service model requires officials and providers to have a significant change in mindset. Evidence shows it takes time (and resources) to learn how to work under new systems, and to develop structures and processes that fit the new way of working.

This chapter looks in detail at the client-directed service models (CDSMs) introduced in Chapter 6. The chapter begins by defining empowerment and explaining different types of choices. It then explores the potential benefits of expanding client choice through CDSMs. The chapter outlines the concerns expressed

[107] See Chapter 2 for a description of the quadrants.

to the Commission about expanding client choice before exploring the available evidence around these concerns. Finally, the chapter looks at services for which expanding client choice may be desirable.

11.1 What is empowerment?

The term "empowerment" can have different meanings depending on the socio-cultural and political context. As such, no single definition will neatly fit all possible applications of the concept to the delivery of social services. Czubu (1999) noted:

> As a general definition, however, we suggest that empowerment is a multi-dimensional social process that helps people gain control over their own lives. It is a process that fosters power (that is, the capacity to implement) in people, for use in their own lives, their communities, and in their society, by acting on issues that they define as important.

In the area of health promotion, Keolen and Lindstrom (2005) note that empowerment is generally considered to be "the process through which people gain greater control over decisions and actions affecting their health" (p. 11).

The World Bank (2002) had more of an institutional perspective on empowerment:

> In its broadest sense, empowerment is the expansion of freedom of choice and action. It means increasing one's authority and control over the resources and decisions that affect one's life. As people exercise real choice, they gain increased control over their lives. Poor people's choices are extremely limited, both by their lack of assets and by their powerlessness to negotiate better terms for themselves with a range of institutions, both formal and informal. (p. 11)

In this inquiry, empowerment is mainly about the ability of clients to influence the arrangements for the services they receive. Accordingly, this chapter defines empowerment as *the expansion of a client's authority and capability to participate in, negotiate with, influence, control, and hold accountable organisations that provide social services (and that therefore affect their lives)*.[108]

11.2 Types of choices

Chapter 6 introduced seven generic models of service delivery: in-house provision, contracting out, managed markets, trust, shared goals, client-directed budgets, and vouchers. In all these models, *core choices* need to be made concerning:

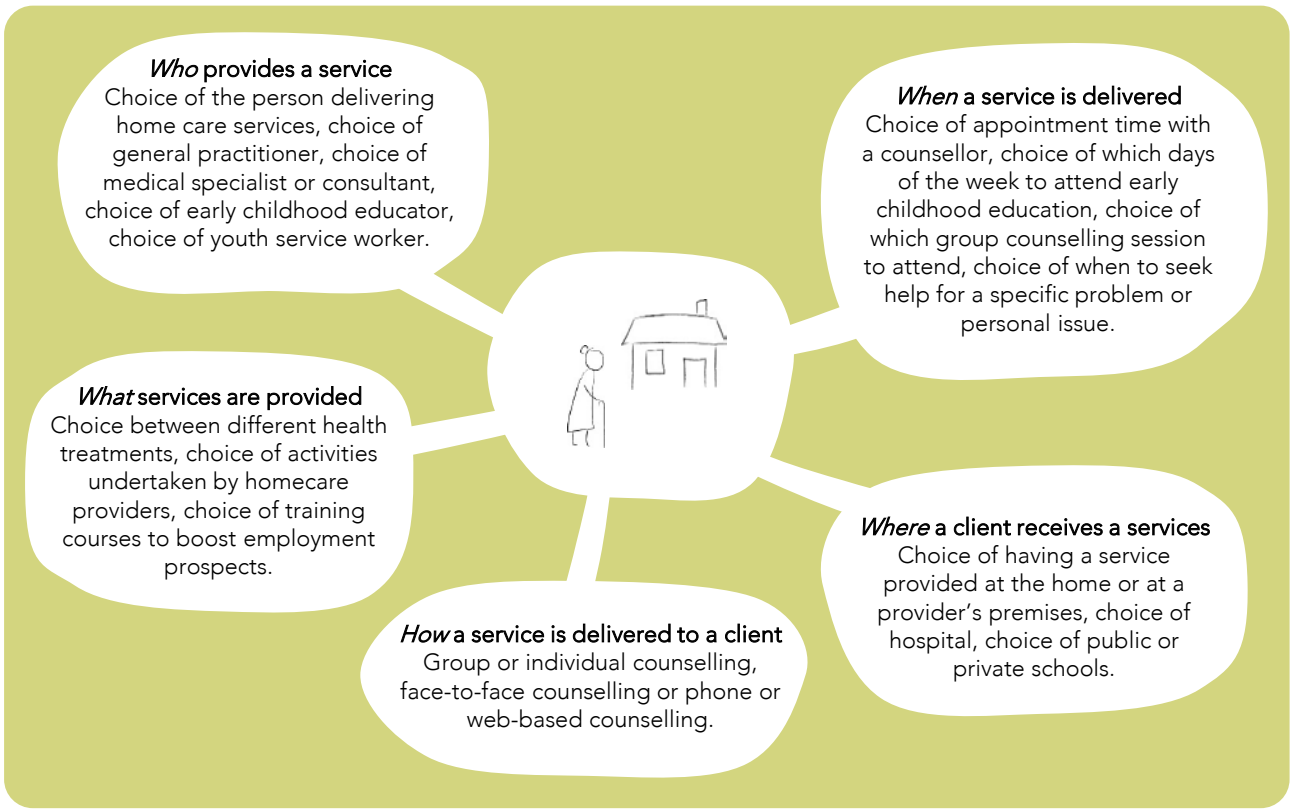
- *what* service to deliver;
- *who* will deliver the service;
- *when* the service will be delivered;
- *where* the service will be delivered; and
- *how* the service will be delivered.

Of course, the core choices are not necessarily independent. For example, who a client chooses as their service provider can be influenced by when or where the service is available. And many choices will require expert professional input.

This chapter addresses the core choices that impact the interface and experience that a client has with the social services system.

[108] This definition of "empowerment" is adapted from the definition put forward by the World Bank (2002).

Figure 11.1 Examples of core choices



11.3 Who is best placed to make core choices?

The social services system will work best when people with the right incentive, information, capacity and authority make core choices (Chapter 2), and when the system has enough flexibility to give people a real choice between alternatives.

Incentives

The social services system will work best when incentives within the system encourage meeting client needs in an efficient, effective and timely manner. Within a given budget, clients have a strong motivation to make decisions that meet this objective. However, while providers and government officials often have the best interests of the client at heart, they can face multiple incentives. At least some of these incentives can conflict with the objective of meeting client needs (Chapter 4).

For example, a government agency may face pressure to minimise the political risk arising from the provision of a service. The agency may respond by seeking to minimise political risk through specifying the core choices in their contracts with providers (Chapter 4). Providers, faced with tightly specified contracts, may have to provide a service in a manner that meets the conditions of the contract but not the needs of the client. The client, in turn, may be discouraged from using the service and their needs may go unmet.[109]

Information

The quality and availability of information is a key determinant of good decision making. The better the information underpinning core choices, the more likely services are to meet the needs of clients in an efficient, effective and timely manner.

Capacity

The capacity of some clients to make core choices will be limited (quadrant D of Figure 2.8). For example, someone in severe psychological distress may not, in the short-run, be in a position to make core choices.

[109] Appendix F provides a detailed economic analysis of the factors impacting the incentives of government officials, providers and clients.

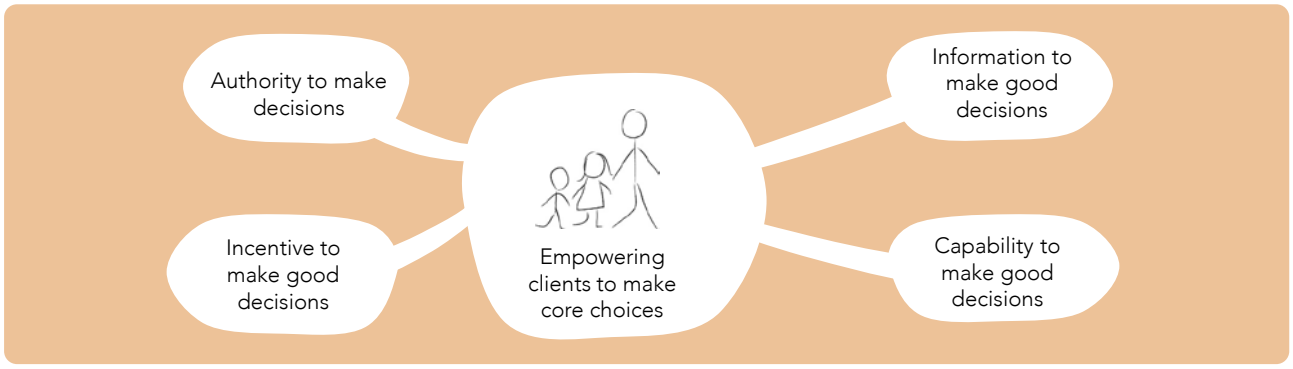
Other clients will be capable of making core choices themselves or with the assistance of a carer or family member (quadrant C).

Importantly, there is a difference between someone having the information and capacity to make core choices in the interest of the client, and their having the incentive to do so. For example, a medical specialist may have an incentive to recommend surgery at a private clinic rather than a public hospital, even though to do so would place the client under financial pressure.[110]

Authority

Having the information, incentive and capability to make core choices means little without the authority to do so. In the social services system, the institutional setting (eg, legislation and contractual specifications) determines who has the authority to make core choices.

Figure 11.2 Elements needed for good decision making



11.4 Who makes core choices in New Zealand's social services system?

The parties making core choices vary greatly between different social services. Some services operate under a CDSM and provide clients (or their representatives) with flexibility to choose the services, how they are delivered, who delivers them and when.[111] Government funding then follows the choices made by clients. Examples include some disability support services and some homecare services for the aged.

Yet many services in New Zealand operate under top-down control, and are provided using the *in-house provision* or *contracting out service model* (Chapter 5). Under these top-down service models (TDSMs), clients may have no choice at all, or may have a limited choice between alternative providers. Once a client has chosen their provider, the services they receive are limited to those specified in the provider's contract with the Government. These contracts can be highly prescriptive, limiting the flexibility of providers to match services to the needs of clients (Chapters 2, 4 and 12). This is particularly problematic for people with complex and inter-dependent needs that cross government silos.

In other instances, clients have a limited choice of provider because the demand for services will only support one provider or a small number of providers:

> Commonly, for many categories of disability services, there are a limited number of providers – often only one – in particular localities and specialties and the incentives for others to enter the market are often weak, or virtually non-existent. Thus, disabled people often have little or no choice of provider. (New Zealand Disability Support Network, sub. 47, p. 3)

Volunteers New Zealand and Hui E! highlighted the limited choice of providers in smaller centres:

> The focus on client choice assumes there are multiple providers available for a particular service. In many places there is no choice or service users have to travel to something out of the region, even for

[110] In such a situation, profession, culture and ethics provide an alternative incentive to act in the interest of the patient. Even so, the example is illustrative of conflicting incentives that exist in the system.

[111] The concept of client-directed care should not to be confused with "person-centred therapy" (a form of talk-psychotherapy developed by Carl Rogers in the 1940s and 1950s).

> very basic services. As a corollary, smaller centres are likely to generate cooperation through necessity. They may develop models of service delivery that are quite different from larger urban cities. (Volunteering New Zealand, sub. 86, p. 13)
>
> In rural areas, service availability is particularly difficult because of restricted availability of staff and transport/travel time issues. (Hui E!, sub. DR213, p. 11)

Table 11.1 Who typically makes core choices under top-down service models?

Core choice	Who typically makes core choice
who provides a service	Client has choice where alternative providers are operating; however, the availability of alternatives can be limited in the case of isolated communities and highly specialised services. Providers generally choose when staff will be available and therefore which professional or carer a client will work with.
what services are provided	Government agencies most commonly choose the services provided (eg, through specifying services in contracts or legislation). Clients often have choice within a menu of services selected by government agencies or service providers select.
when a service is delivered	Typically, government agencies or service providers select when services will be available. Yet, services are often scheduled to give clients a choice of pre-determined times.
where a client receives a service	Typically, government agencies or service providers select the physical location for delivering the service. Clients may have choice where there is more than one provider or where a provider operates from multiple locations.
how a service is delivered to a client	Typically, service providers choose how they deliver services. However, government contracts can limit provider choice (eg, by specifying, say, the number of home visits that a provider must make).

11.5 Problems with who currently makes core choices

Problems with who currently makes core choices include:

- authority to make core choices often rests with those that lack information on client needs;
- coordination between those making core choices is weak, leading to overlaps and inconsistency;
- incentives within the system rarely reward (and can work against) making core choices that meet the client's needs; and
- clients are disempowered by limited authority to make core choices.

Authority and information

Client needs are not homogeneous. Rather, needs are derived from a complicated interaction of personal circumstance, socio-economic conditions and cultural backgrounds – factors that clients and their families/whānau (rather than government officials) are often better placed to understand.

Government officials cannot possibly hope to understand the complex and dispersed needs of thousands of clients. As such, while "one-size-fits-all" contracts will meet the needs of those whose circumstances and needs align well with the choices made at the centre, they commonly fail those with more complex needs. Healthcare of New Zealand Holdings Ltd (HCNZH) noted:

> Service models defined by funders are inevitably constraining in their attempt to define the best solution. Inevitably a system wide approach to design where the funder defines the service to be provided leads to some people being allocated services as a solution that don't meet their needs as well as another potential option or configuration. (sub. 51, pp. 6–7)

Flexible contracts (eg, contracts for outcomes) address this problem to some degree by placing core choices closer to the client and freeing up providers to tailor services to needs. Yet, even with flexible contracts,

authority is still in the hands of those with incomplete information about the client's needs (ie, providers). Chapter 4 discusses this issue.

F11.1 Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the *what*, *who*, *when*, *where* and *how* of service delivery.

Coordination between those making core choices is weak

Chapter 4 discussed how government agencies commission services in separate administrative silos, with each agency having authority over core choices for specific services. The result is that agencies make core choices for different services independent of each other. Chapter 4 also noted that people often face interlocking and mutually reinforcing problems, and that solving one problem in isolation often makes little difference, as the remaining problems simply cause the first problem to re-occur. Haldenby, Harries and Olliff-Cooper (2014) provides a clear example:

> [I]magine a person out of work, in debt, and depressed. Debt drives their depression. Depression keeps them out of work. Depression thrives on unemployment. Unemployment drives their debt. It is a vicious cycle. Unless public services can take a coherent approach to tackling all three problems at the same time, they make no progress, and money. (p. 21)

Evidence suggests that approaches that address a client's various needs in an integrated way lead to better quality care. For example, models that integrate mental health and primary care lead to better outcomes for people who suffer from depression arising from other medical conditions (Narasimhan et al., 2008).

The problem of making core choices in isolation further compounds the inefficiencies that arise when choices are made with inadequate information.

Little reward for meeting client needs

One drawback of the current top-down approach is that in many instances, good providers do not benefit directly from attracting additional clients, and poor providers do not bear the direct costs of losing clients. On the contrary, under some block-funded contracts, good providers bear the cost of servicing clients who leave a previous provider.[112] At the same time, the poor providers see their costs decline, particularly if the client's needs were difficult or costly to meet. This reduces the incentive for providers to be innovative and responsive to client needs.

Of course, consistently poor providers run the risk of not having their contracts renewed (an indirect cost) and the Government can reward good providers with additional funding in the future (an indirect benefit). However, in practice these indirect incentives are less reliable than when clients directly choose providers. Commissioning organisations find it difficult to observe the quality of service provision (see Chapter 6). Also, funding decisions are frequently based on political and bureaucratic processes rather than on historical performance (Chapter 4).

F11.2 In-house provision and contracting-out models typically offer little reward to providers for being responsive to the needs of clients.

Clients are often disempowered

The current allocation of core choices often forces clients to be passive recipients of services rather than active participants in decisions. This can be very disempowering.

[112] In this context, a block-funded contract is one where providers receive a fixed payment, irrespective of the number of clients they service.

As people start to exercise choice, they increase control over their lives. Such control has intrinsic value, particularly for poor or socially marginalised individuals who would otherwise lack the resources or status needed to negotiate better services. Inspiring Communities et al. noted:

> [F]ocusing not just on what social services are delivered but HOW is key to improving social service outcomes. Key elements of the 'how' include engaging and working with people in empowering, strengths based ways to enable them to become agents of their own change rather than be passive recipients of services. (sub. 58, p. 2)

F11.3 The allocation of decision rights under in-house provision and contracting-out models often casts clients as passive recipients of services, rather than active participants in decisions that impact their lives.

11.6 Benefits of empowering clients to make core choices

Increasing client choice can have benefits at both the individual and system level, a point widely acknowledged in submissions to the inquiry. For example, the Palmerston North Community Service Council noted:

> We don't all want to go to the same supermarket, so why should clients be expected to all go to the same provider. Different services often come from a different cultural perspective which is important for the client … providers can offer a different level of service, eg. Some budgeting services offer a budgeting service where you can obtain advice on how to manage your own budget and yet there are other budget services that will actually take over your finances and manage them for you whilst resourcing you to take back the financial management of your finances at a later date. Both have advantages and are necessary in different circumstances. (sub. 125, p. 12)

Similarly the Wise Group commented:

> Clients need choice. They need to be able to choose between providers based on culture, the services they deliver and whether it best meets their unique needs. Where and who a client receives services from is usually decided by a government agency and client choice is not readily supported. (sub. 41, p. 25)

At an individual level, vesting the authority to make core choices with clients changes the traditional power relationship between clients and the institutions that design and deliver social services. Empowering the client provides a way for them to negotiate with, influence and hold accountable the institutions that affect their lives.

For disabled people, the quest for greater choice has occurred in parallel with a quest for greater social inclusion and the pursuit of human rights (see Appendix D). The importance of choice to client wellbeing should not be under-estimated. Manawanui In Charge (MIC) highlighted the empowering impact of choice in disability services:

> The choice, control and flexibility offered by self direction enables and empowers people to live ordinary and fulfilling lives. Barriers to normality often experienced by people and families with disabilities are removed through self direction and this enables them to make very real community contributions. The downstream effects of this are positive outcomes for individuals, families and entire communities. (Manawanui, sub. 8, p. 1)

Particularly when clients have multiple and complex needs, empowering clients to make core choices can enable a better fit between client needs and the services they receive (Duffy, 2007). The better fit occurs because in most cases the client (rather than government officials or providers) will have the:

- best understanding of their individual needs and circumstances;
- strongest motivation to get the services they require;
- best chance of integrating government-funded services with support from family/whānau and friends;

- most complete understanding of any relevant risks; and (consequently)
- best understanding of the combination of services that are most likely to work for them.

F11.4 In many instances clients, rather than government officials, have the best understanding of their own needs and the combination of services they require. (Such clients are typically in quadrants B and C.) Clients are also often in the best position, with the support of family/whānau and friends, to integrate the services they require.

A better fit between services and client needs means more public money would be spent on the services that clients value, and less on those they do not. This is important because opportunities to improve wellbeing go unrealised when funding flows to low-value uses:

> The experience in the disability sector has shown that the ability to take a client-directed budget and design a bespoke solution from scratch can allow clients and the people who support them to achieve outcomes that would be impossible under a traditional model of procurement, thereby improving value for money. (HCNZH, sub. 51, pp. 6–7)

New Zealand Disability Support Network noted the link between choice and being able to tailor services to the needs of individuals:

> Client-directed budgets, in being person-centred and allowing choice, empower people with disabilities and their families so that it becomes easier to tailor support to individual needs and goals. Implicit is a recognition that individuals, in fact, usually know what is best for them and that it is a positive, enriching experience for them to be in better control of their own lives. (sub. 47, p. 10)

F11.5 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery leads to a better fit between client needs and the services they receive. A better fit means that more public money is spent on services that clients value, and less on those they do not.

At a system level, empowering clients puts an emphasis on providers to be responsive to client needs and to lift the quality of the services they offer. All things being equal, an informed client will choose providers of high-quality services over providers that deliver low-quality services. Of course, what constitutes "high" quality and "low" quality can be contentious (see New Zealand Educational Institute Te Riu Roa, sub. 40).

Unsurprisingly, some clients will require help to ensure they make informed choices. Indeed, uninformed choices can have serious negative consequences for clients.

While the desire to retain or attract clients can motivate quality improvements, choice can impact the quality of services in more subtle ways. For example, providers may notice patterns in the choices made by clients, such as the low uptake of a particular service. This may prompt the provider to investigate the low uptake and modify the service accordingly. In this way client choice provides an important feedback loop on service performance (see Chapter 6).

Similarly, choice can strengthen the incentives on providers to look for innovative ways to deliver services and provide a mechanism through which both provider and client can experiment with, and learn from, trying different approaches to service delivery (see Chapter 6).

Finally, choice can be a catalyst for integration of government services. For example, CDSMs allow clients to select the "bundle" of services that best meets their needs. In doing so, the client becomes the integrator of services. Even greater integration is possible when clients have access to a pool of funds (or services) from different government agencies. The Enabling Good Lives demonstration projects are examples of this approach (Appendix D).

F11.6 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to delivering services.

F11.7 At a system level, giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery creates an incentive for providers to be responsive to client needs and to lift the quality of the services they offer.

F11.8 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism for integrating services. Integration will be greatest when clients have access to a pool of funds (or services) from different agencies.

11.7 Different ways to empower clients with core choices

There is growing international interest in the application of CDSMs to the provision of social services. CDSMs can differ greatly in their design elements, that is through:

- the payment mechanism;
- the level of authority that clients have over the core choices;
- the breadth of the choices available to clients; and
- the level of administrative and decision support that clients receive.

While precise classification is difficult, CDSMs can be broadly grouped under two headings: client-directed budgets and voucher systems. Under both approaches government funding follows the decisions made by clients.

Client-directed budgets

Client-directed budgets are known by several names, including personal budget, individual budget, and individualised funding (IF). Service needs are expressed in terms of a fungible unit (typically hours of service or dollar value of service) and pooled to form the client's service budget. Typically, the client works with a professional to develop a service plan based on the outcomes the client is looking to achieve. In some systems, government agencies monitor adherence to the plan (monitored approaches). In other systems, plans are a non-binding tool aimed at helping clients to make good choices (assisted approaches). The Ministry of Health (MoH)'s IF programme is an example of a client-directed budget.

Cash payments are a form of client-directed budget where the clients receive payments in lieu of publically provided services. Typically, cash–payment schemes give wide discretion around how the clients can use funds. Clients can employ people or purchase services themselves.

Client-directed budgets are most likely to benefit clients with complex requirements that have the capacity and motivation to make informed choices about the combination of services that best meets their needs. These clients generally fall in quadrant C.

Voucher systems

Under voucher systems, clients receive subsidised or free access to a defined service (European Union, 2013). The client is able to access the service through providers approved or licensed by the Government. The Government provides a physical coupon for services (explicit voucher), or pays a provider directly for services (implicit voucher), or reimburses the client for expenses on approved services (reimbursement voucher).

Vouchers, particularly implicit vouchers, are a very common feature of social services systems in OECD countries – particularly in the areas of education and healthcare. Examples of voucher systems in New Zealand include early childhood education and general practitioners (GPs). On the whole, these examples attract wide social and political support and are largely uncontroversial.

Voucher systems are most likely to benefit clients with relatively straightforward needs who – like those in quadrant C – have the capacity and motivation to make informed choices. These clients generally fall in quadrant B.

11.8 Client-directed models in New Zealand and internationally

Various forms of CDSMs operate in New Zealand. Yet most give clients few real choices around the service they receive. A notable exception is the MoH IF programme, which has operated since the early 2000s. This programme gives (eligible) disabled people the option of developing a personalised plan for their Home and Community Support Services (HCSS). People receive assistance in developing their plan from an intermediary known as an *individual funding host*. Appendix D provides more detail on the history and performance of the IF programme.

In 2011, a first-principles review of government support for people with disabilities recommended significant changes in the way services were delivered. Among other things, the report *Enabling Good Lives* recommended empowering disabled people and their families with greater choice and control over the services they receive. Importantly, the report recognised the need for "cross government individualised/portable funding" (Independent Working Group on 'Day Options', 2011, p. 6).

In September 2012, the Ministerial Committee on Disability Issues agreed to the approach set out in Enabling Good Lives (EGL) and a vision and long-term principles for changing the disability support system. A demonstration of the EGL approach commenced in Christchurch the following year. A review of this demonstration released in 2014 indicated wide support for the EGL approach and for expanding the level of choice and empowerment of clients (see Appendix D).

A second EGL demonstration in the Waikato kicked off in 2013 with the appointment of a leadership group consisting of three local forums representing providers and disabled people and their families. In the 2014 budget the Government confirmed funding for the demonstration ($3.8 million over two years).

While the demonstration is in its early stages, there are signs that agencies have learnt some lessons from the Christchurch EGL demonstration. For example:

- the demonstration is open to a wider group of disabled people and cover more services;
- the demonstration has adopted alternative approaches that reduce reliance on existing government systems and processes; and
- disabled persons' organisations have had closer involvement in the design of the programme.

International examples of client-directed service models

There are a number of international examples of CDSMs. These range from cash payments for the purchase of homecare disability services, to client budgets for aged-care services, to vouchers for home-nursing services. Table 11.2 provides a brief summary of some of the more notable programmes used overseas. In addition, Chapter 3 has a description of the Australian National Disability Insurance Scheme (NDIS).

Table 11.2 International examples of client-directed service models

Country	Programme development	Description
Australia	Individualised funding introduced in Western Australia in the 1990s; Victoria introduced Individual Support Packages in 2003 and direct employment in 2012. NDIS is currently being implemented.	Client-directed disability support through planning and personalised funding is most advanced in Western Australia and Victoria, although elements of such programmes have been introduced throughout Australia. See Chapter 3 for details about NDIS.
Austria	Cash payments introduced in 1993. Covers homecare and institutional care, and covers the whole population. All state support for homecare is through cash allowances.	For those aged over 3 who need long-term care (requiring 50+ hours of care a month) due to physical disabilities and/or mental illness. A medical assessment of need is done. The programme promotes autonomy, choice and market-driven developments. Largely used to compensate family members for informal care.
Canada	Started in 1997, individualised quality of life pilot launched in Toronto. Rolled out from 2000. Similar initiatives in other provinces.	For people with developmental disabilities who need support. Funds are used to purchase disability-related supports. Funds cannot be used for costs related to medical supplies or equipment, home renovations, electronic equipment or leisure, recreation and personal/family costs.
Finland	Vouchers for home help and home-nursing services were introduced in 2004 as part of broad changes to the health and social care system.	The vouchers are for privately provided services only. The value of the voucher is determined using a formula that takes into account household size and income, with the service users paying the difference between the value of the voucher and the full price of the service. Providers set the price of their services meaning the level of the co-payment differs across providers. The eligibility of providers is set in legislation (OECD, 2011).
France	Cash for care *(L'allocation personnalisée à l'autonomie)* piloted in 1994–95; made national in 1997. Expanded in 2002.	For people aged over 60 who need care because of a physical disability or mental illness. Reduces the burden on care homes. Increases the individual's independence and autonomy. Funds can be used to purchase specific care packages, and/or to employ a personal assistant.
Germany	Cash payments for care introduced in 1995 and extended in 2008 (to include mental illness). Personal budgets piloted 2004–2008, with intention to start roll-out in 2008.	For all people who "frequently or to a considerable extent" need care because of a physical, psychological or mental illness or disability during their daily activities, or for a period of at least six months. Funds are used to purchase transport, nursing, assistance at workplace, leisure activities, therapy costs, support equipment, etc., and services provided by health insurance/care insurance, when needed regularly and on a supplementary basis. Cannot be used to pay GP costs.
Sweden	Vouchers for users of long-term care services.	Sweden has encouraged choice for long-term care (LTC) users since the early 1990s. LTC users choose their service provider from those contracted with the local municipality. The municipalities then reimburse providers according to a timesheet that clients sign upon service delivery. Acceptance criteria for providers are defined by the act and all applicants meeting the criteria have to be accepted (OECD, 2011).
The Netherlands	Personal budgets introduced in 1996. Scope and eligibility significantly scaled back from 2012.	For people who have a disability, chronic illness, psychiatric problems or age-related impairments. By 2014, only those who would otherwise have to move into care or a nursing home will be able to keep/apply for a budget. Funds can be used to buy personal care for help with daily living, nursing care, support services (eg, day-time activities), and short stay and respite care for short holidays/weekends. Cannot be used to pay for alternative treatments, medical treatments, or treatment by allied health professionals.

Country	Programme development	Description
United Kingdom	Cash payments introduced in 1988. Direct payments introduced from 1997. Individual (social care) budgets (IB) piloted 2005–07 and subsequently rolled out. Personal health budgets (PHB) piloted 2009–12, with plans for further roll-out.	The Independent Living Fund supports adults with disabilities who live at home. Funding was expanded under the direct payments policy to include younger people, people with mental health conditions and the elderly. For people who have long-term care needs. Plan to have all council-funded service users and carers on PHBs by 2015. PHBs are piloted mainly for individuals with a range of long-term conditions. IBs are usually used to purchase mainstream services, employ personal assistants and pay for leisure activities; they are sometimes used for a wide range of one-off purchases. PHBs are used to employ personal assistants or purchase goods or services that contribute to health goals in a personal plan. IBs are not used to pay for GP services or emergency health services.
United States	Cash and counselling piloted 1998–2002. Some states developed client-directed care for adults with serious mental health conditions. In 2012, the majority of states started to offer client direction through Medicaid programmes. Some states allow for client direction in non-Medicaid elderly assistance programmes and for some veterans services.	For older people and people with disabilities who need home and community-based long-term care. Some programmes support individuals with serious mental health problems. Cash and counselling varies between programmes. Can employ personal assistants and purchase care-related services and goods. States control the range of services and equipment that can be purchased. Some programmes include purchasing some elements of healthcare, such as skilled nursing and long-term rehabilitative therapies. Some programmes include clinical recovery services for people with serious mental health conditions.

Source: Gadsby, 2013; Cortis et al., 2013; OECD, 2011; Productivity Commission.

F11.9 Compared to some other OECD countries, New Zealand has been slow to adopt client-directed budgets in areas other than disability support.

11.9 Submitter concerns about client-directed service models

This section highlights some of the concerns raised by submitters about the use of CDSMs. Section 11.10 then looks at the evidence and experience with CDSMs in New Zealand and internationally to assess whether these concerns are justified.

The New Zealand Council of Trade Unions (NZCTU) highlights an overarching concern about the need to understand the implications of moving to CDSMs:

> In the United Kingdom it is the "choice model" that has been increasingly favoured and embedded – though elements of the other models remain. The New Zealand situation is similar with policies and practices leaning towards the "choice model". But there are a multitude of issues that have not been analysed or fully understood about this so-called "choice model". We are very concerned about moving in this direction without a full appreciation of the implications of this model. (sub. 103, p. 5)

"Client-directed service models reduce service quality"

One of most commonly expressed reservations of submitters was the perception that CDSMs result in a decline in service quality. For example, the New Zealand Educational Institute Te Riu Roa pointed out that education already has client choice:

> [A] very large proportion of funding to centres and schools is roll-based. When a child moves to a new service or school, they take their funding with them. This creates a high level of competition between providers, which can undermine the provision of high quality education… (sub. 40, p. 30)

HCNZH emphasised the risk involved in allowing clients to employ people without adequate training:

> [C]lient-directed budgets can encourage employing informal staff from the person's own networks, where this happens there is a risk that people performing key functions/roles are not adequately trained to perform their duties. (sub. 51, p. 7)

The Otago Youth Wellness Trust questioned the ethics behind placing choice above quality:

> The focus should always be on Provider quality and effectiveness. Diversity or "choice" for choice sake that knowingly results in multiple Providers delivering poor quality services is unethical. (sub. 73, p. 12)

"Some people can't make choices"

Some submitters were concerned that many clients are not able to make choices due to the nature of their illness or impairment. For example, the Spectrum Care Trust Board noted:

> People with an intellectual disability are less able to do that and require additional supports. People who have communication difficulties are less able to articulate their needs. Many people with an intellectual disability are not able to rationalise their funding or prioritise or even fully understand the range of services available. For the same reasons, those affected by acquired brain injury, dementia and related illnesses are less likely to benefit from individualised funding and are more exposed to exploitation by those managing funds on their behalf. (sub. 90, p. 8)

Carers New Zealand expressed similar concerns:

> Our main reservation about individualised funding is that it works best for the "able-disabled" who are in a good position to benefit from the empowerment opportunities available. Where the person with a disability or illness is not in a good position to benefit from the empowerment opportunity (e.g. they are a child, or have an intellectual disability) the responsibility for spending the funding and arranging the care tends to fall on the family. (sub. 71, p. 4)

"Client-directed service models make vulnerable people more susceptible to abuse"

Some submitters expressed concern that CDSMs expose vulnerable clients to abuse. The submission from HCNZH is typical of the views expressed to the Commission:

> [T]he risk of abuse (emotional, physical and financial) exists in relation to both formal services and the types of informal arrangements that exist around client-directed budgets. In the case of client-directed budgets people can be vulnerable to abuse because there are no formal checks and balances of the quality of the support/service they are receiving. If family members are both the beneficiaries of funding (employees) and the key people supporting decisions there is a significant conflict of interest that can lead to abuse. (sub. 51, pp. 6–7)

Aged Care New Zealand expressed similar concerns:

> If control was put into the hands of a carer or family member, there is the risk that the carer or family member may abuse their position. (sub. 100, p. 5)

"People don't want to shop around for providers"

A number of submitters commented that clients simply do not want to shop around for providers and that the benefits of switching providers may be low relative to the costs (such as filling in paperwork or breaking relationships with trusted professionals).

New Zealand Disability Support Network noted:

> Clients with, say, an intellectual or sensory disability – or even those who just lack confidence – may be at a particular disadvantage in making good choices and even when someone else (such as a family member) acts as an agent for them, there can be problems. Often, it may come down to trial and error but, nonetheless, it can be cumbersome, awkward and distressing for a disabled person to change to another provider, assuming there exists the option of an alternative provider. (sub. 47, p. 4)

The Association of Salaried Medical Specialists highlights research that indicates people want *good services* more that they want choice:

> [I]t is worth noting that although choice is generally perceived to be a good and important 'right' of individuals, research has suggested that in fact, people often value simply having access to high-quality

> service providers that they can rely upon greater than they value having a choice between many different providers. For example, in a survey of users of the National Health Service (NHS) in the United Kingdom, the preference exhibited was for retention of the public and universal aspects of the health system rather than having a choice over the providers of their care. (sub. DR156, p. 10)

"Client-directed service models can lead to people becoming isolated from their community"

Some submitters express concern that CDSMs can result in clients interacting less in the community, leading to isolation and an associated loss of wellbeing:

> Individualisation or personalisation can lead to isolation for the person by disconnecting them from group supports and the person being seen in isolation from their family/community. (Inclusive New Zealand, sub. 32, p. 6)

"Client-directed service models place financial pressure on providers"

Many providers voiced concerns about the financial implication of CDSMs. For example, Inclusive New Zealand noted:

> Providers have no guarantee of income. This makes it difficult to plan, ensure that adequate staffing ratios are maintained and that the organisation can run efficiently and sustainably. There is still a need for core or baseline funding. (sub. 32, p. 6)

Workbridge went further, suggesting that without core funding some providers risk not being financially viable under client-directed budgets:

> With client-directed budgets and outcome-based contracts, providers have no guarantee of income. This makes it difficult to plan, ensure that adequate staffing ratios are maintained and that the organisation can run efficiently and sustainably. There is still a need for core or baseline funding …With the lack of funding increases in the past 10 years for Vocational Services in the disability community many providers are using their reserves to provide services, are close to insolvency within the next 1-2 years and cannot accommodate client-directed budgets and outcome-based contracts without an increase in core or baseline funding. (sub. 102, p. 11)

MIC had a different view on the financial pressures on providers as a result of CDSM:

> Manawanui suggests that the sustainability of providers rests with them – the government has a habit of protecting providers who underperform, and the move to self direction means that people can make choices about who they want to purchase support from. This means they will choose NOT to purchase from providers with less than adequate services – they will vote with their feet. It requires providers to change their thinking and offer up innovative service/support solutions that people see as adding value to their lives and that therefore, they wish to purchase. (sub. DR194, p. 4)

"Client-directed service models are more open to fraud and misuse of funds"

Some inquiry participants have expressed concerns that CDSMs are more prone to fraud and misuse than TDSM. For example, the Association of Salaried Medical Specialists noted that programmes overseas have had "problems with fraud" (sub. 85, p. 32).

"Client-directed service models are harmful for workers"

One feature of CDSM is that clients often use their service budgets to employ carers directly (ie, rather use staff from an established services provider). This practice is common under the IF programme in New Zealand.

Some submitters expressed concerns that direct employment can have adverse impacts on workers. For example, while supportive of the general intent of client direction, the NZCTU noted:

> We support the concept of the consumer having choice in the employment of their support worker but advocate for it to be managed through an organisation that is accountable for managing the employment and the health and safety requirements (which are significant) to the level of the Home and Community Support Standards and other relevant legislation. (NZCTU, sub. 103, p. 19)

The NZCTU went on to comment that "[t]he development of home-based services in providing more choice and reducing institutionalisation has been at the expense of the workforce" (p. 16).

The Public Service Association (PSA) expressed similar views:

> The PSA supports the intent of this programme but we are deeply concerned about the approach taken in New Zealand where the person with a disability is the employer of staff. This approach:
>
> a) Diminishes the skills and contributions of the disability support workforce
>
> b) Undermines meaningful workforce planning and development and national standards of service delivery
>
> c) Places considerable responsibility on the person with a disability to manage the obligations of being an employer
>
> d) Will increase insecurity in employment and expose the workers to health and safety risks (we note the exemption being considered under the Health and Safety Reform Bill). (New Zealand PSA, sub. 108, p. 17)

HCNZH also noted the risks to staff:

> The key risks associated with client directed budgets include … unsafe employment practices – where the client is responsible for employing staff there is a risk that they will not be a good employer in terms of ensuring a safe workplace and meeting their legal obligations to their employee. (sub. 51, pp. 6–7)

11.10 What do evidence and experience suggest?

This section examines the evidence around the advantages and disadvantages of CDSMs.

Any discussion of "evidence" will inevitably raise questions around the methodological credibility of the studies examined, and the type of information that the Commission considers to be credible evidence. This section draws its evidence from:

- systematic literature reviews conducted by academic researchers within universities;
- programme evaluations commissioned by government agencies both in New Zealand and overseas;
- the Commission's review of articles in peer-reviewed journals and published reports; and
- submissions to this inquiry.

Collectively, these sources cover more than 100 journal articles and published evaluation reports. Anecdotal evidence collected during engagement meetings also informs the section.

The available research on CDSMs clearly has some shortcomings. Arksey and Kemp (2008) highlight a number of methodological issues within the existing literature.

- Studies often focus on a specific programme, so that meaningful comparisons with TDSMs cannot be made.
- Many studies suffer potential selection effects in that clients self-selected to be part of the programme under review. Few studies involved randomised assignment of clients into treatment and control groups.
- Studies commonly measure client perceptions and experiences rather than more objective assessments of programme performance.
- Most studies assess the success of a programme at a point in time, rather than over the longer term.

It is also important to note that the literature covers programmes with different designs and different supporting institutions. This makes comparisons difficult. Even given these methodological difficulties, the Commission believes that a lot can be learnt from the available literature on CDSMs.

Most clients report higher wellbeing and satisfaction with services

The strongest conclusion from the available literature is that CDSMs improve client satisfaction with services, feelings of wellbeing and quality of life (Gadsby, 2013; Gadsby et al., 2013; Crozier et al., 2012; Bennett & Bijoux Ltd, 2009).

Evaluations of CDSMs in the United States, England and Australia have reported increased levels of satisfaction after moving from top-down to client-directed models of support (Alakeson, 2007; Alakeson, 2010; Gray et al., 2009; Shen et al., 2008; Benjamin, Matthias & Franke, 2000; Carlson el al., 2007; Fisher & Campbell-McLean, 2008; Foster et al., 2003; Gordon et al., 2012; Tyson et al., 2011; Wiener, Tilly, & Cuellar, 2003; Forder et al., 2012).

Further, comparisons of clients directing their own services with those receiving top-down support show that clients directing their own support usually:

- are happier with the availability of services they receive (Carlson et al., 2007; Cook et al., 2008);
- feel they are making more progress towards meeting their goals (Cook et al., 2008); and
- are more likely to feel that their needs are being met (Alakeson, 2007).

Glendinning et al. (2008) conducted an evaluation of the IB pilot programme across 13 pilot sites in the United Kingdom. The evaluation found:

- mental health service users "reported significantly higher quality of life than those in the comparison group" (p. 17); and
- physically disabled adults "were significantly more likely to report higher quality of care" (p. 18).

The same study, however, suggested that for some clients, choice may create anxiety and lower wellbeing:

> Information from the qualitative interviews with service users and their proxies indicated that many older people supported by adult services do not appear to want what many of them described as the 'additional burden' of planning and managing their own support. (p. 27)

Despite this "additional burden", Gadsby (2013) concluded that:

> [t]he overall success of personal budget initiatives in terms of improving individuals' satisfaction with their care, and aspects of their quality of life, is established in international research. (p. 17)

Many submissions to the inquiry strongly align with this conclusion (Box 11.1).

Box 11.1 **Some views of submitters that use Individualised Funding**

Rose and Noel Chadwick

> Our son Timothy, now nearly thirty years old, with autism and an intellectual disability, began using Individualised funding in September 2010…The availability of this funding has transformed Timothy's life and ours. Acting as Timothy's agents, we have been able to employ staff to work with Timothy at the times and in the places that best support him to lead a happy and fulfilled life. (sub. DR150, p. 1)

John Herring

> I am the parent of a 9 year old son with Cerebral Palsy. My son Johnny has very high complex needs and I use Individualised Funding (IF) to manage his support. Prior to using IF we received support services via alternate mechanisms, including carer support and other such restrictive, disempowering and infuriating services … IF has made a huge difference to our lives. Before we moved onto IF, we frequently could not access support due to the restrictive nature of the service constraints, often our allocation of funding would go unused as a result of the difficulty in complying with funding requirements. Now we have the freedom to utilise the funding allocation in a manner that suites our situation, which is fairly unique. (sub. DR151, p. 1)

Jennifer Natusch

> I am the mother and primary carer of Katherine Natusch and I use Enhanced Individualised Funding (EIF) to manage her support. Kate is 32 years old, and has moderate cerebral palsy. She continues to live with us as her wish, but uses a walker or wheelchair and does not drive a car.

> EIF has made a huge difference to our whole family. Before we used EIF, we had virtually no support since Kate left school 12 years ago. This is because we live on a farm 60 km from Tauranga where most of the support agencies operate. For 3 hours care, Kate and I had to drive for an hour to where the agency worker was, on the day that suited them and then we drove an hour home. That is 2 hours driving for 3 hours care. We had no choice about the person who would provide the care, and needless to say, this system did not work for either Kate or me….Now, Kate has carers who she helped to choose. They come to her home and work with her in her place, or take her out to socialise, shop or go to Riding for the Disabled, as well as volunteering at the local school. She is now participating in life in new ways with people who respect her and value her. And this allows me a little time out too. (sub. DR160, p. 1)

Judy Howard

> I use Individualised Funding (IF) to employ and manage support for my daughter Tegan who shares a house with her good friend Mel who is also under IF. I am the agent for both girls. IF has allowed me/us to employ what support workers that we think best fit the job description/Goals/Vision that I have with the help of the girls set up… We have only being using IF for the last 10 months and what I love about it is the flexibility for me to set the hourly rate, hours, values and duties. (sub. DR210, p. 1)

Jo Lussey

> Before we moved onto IF, we were not able to specify the times of support or who would support my son. Now we have total control of this, choosing the best times and people to suit his needs…We have had our current support people/person ranging from several years to several months. What a difference it has made. We now get the support my son needs when he needs it from people who value and respect our family…Being able to employ our staff for our son's care means that we are choosing people who believe and demonstrate the same core values that we teach our son. (sub. DR223, p. 1)

F11.10 Most clients experience an increased level of satisfaction after moving from top-down service models to client-directed service models.

Positive health outcomes are reported, but the evidence is weak

While some studies have reported positive health outcomes (Stainton & Boyce, 2004; Carlson, et al., 2007; Fisher & Campbell-McLean, 2008; Cooper et al., 2010), there is only weak evidence that CDSMs lead to better health outcomes than TDSM (Gadsby, 2013; Gadsby et al., 2013; Crozier et al., 2012).

Conversely, the published literature has little or no evidence to suggest that CDSMs lead to *worse* health outcomes than TDSMs. Evaluations in the United States comparing client-directed and top-down approaches to homecare suggest little difference in health outcomes (Benjamin, Matthias & Franke, 2000; Wiener et al., 2007; Alakeson, 2010; Benjamin & Fennell, 2007; Brown et al., 2007).

These results are consistent with evaluations undertaken of the PHB programme in England. Forder et al. (2012) found that the programme had no (statistically) significant impact on health status or mortality rates, and that clients did not report significant differences in health-related quality of life compared to the control group.

F11.11 Some studies have reported positive health outcomes when clients shift from top-down service models to client-directed service models. However, in general the evidence for such health improvements is weak.

Most clients can and do exercise choices given the opportunity

The available evidence suggests that in most cases, with the right tools and support, clients are indeed able to and do exercise choice when given the opportunity. Inclusive New Zealand suggested that disability is not an obstacle to exercising choice:

> We are concerned about the statement in the paper that 'some clients may have medical conditions or disabilities that limit their ability to make informed choices… services can be designed to allow choices to be made on their behalf.' Disability support providers have worked hard to ensure that people using their services are able to make informed choices. It is our experience that most people are able to make their preferences known when they are communicated with in the correct way, and a range of good practices, such as Circles of Support, have been developed. (sub. 32, p. 6)

Many programmes allow clients to nominate a representative to assist them in making choices, or to choose on their behalf. Mahoney et al. (2007) highlight this as one of the six critical issues involved in designing CDSMs. In reference to the US Cash and Counselling Programme they noted:

> In the course of the original experiment, states learned that many individuals who were capable of expressing important preferences but not able to manage an individualized budget on their own (e.g., persons with some developmental disabilities or persons with Alzheimer's disease) could profit from the flexibility afforded through the Cash and Counselling model if they were allowed to appoint a representative to assist them. Others, especially among the elderly, just felt more comfortable having a representative at least at the start. Whereas states have made good progress developing criteria for when representatives are needed and how they should be monitored, these policies need to be evaluated and refined. (p. 557)

MIC made a similar observation:

> We strongly disagree with the rationale that this is a reason for concern with CDSMs. In our experience, even people with intellectual disabilities can make some choices for themselves and can make a wide range of personal choices with support. The use of an "agent" (being an unpaid family member or advocate) enables even people with intellectual disabilities to make choices…We suggest it is in fact unethical for the system to assume that an intellectual disability is the same as incompetence, and/or that a provider or government agency can make a better choice for the person than someone close to them who they love. (sub. DR229, p. 3)

F11.12 If good practices are used, most clients of social services programmes can and do exercise choice when given the opportunity.

There is little evidence that client-directed service models lead to a decline in quality

The Commission believes that access to high-quality services is fundamentally important to achieving good outcomes for clients. Available evidence does not support the idea that CDSMs reduce service quality, or that choice and service quality are mutually exclusive.

While anecdotal evidence of quality decline is available, the quality of support provided under CDSMs has largely been evaluated as at least as high as under TDSMs (Gray et al., 2009; Kim, White & Fox, 2006; Young & Sikma, 2003) and in some instances is greater (Gaynor, Propper & Seiler, 2012). Submissions to this inquiry from people using IF suggest an improvement in service quality (Box 11.1).

However, in reference to ECE the Ministry of Education noted that clients are not always the best judge of quality:

> [I]t needs to be noted that there is little evidence to support claims of improved performance and clients being able to better judge quality, because of the unavailability of attributable measures of outcomes for children and families. (Ministry of Education, sub. DR207, p. 6)

F11.13 Little evidence is available to support concerns that client direction leads to a decline in the quality of services that clients receive.

Fraud and misuse of funds is no higher than under top-down service models

The most notable (and commonly cited) instances of fraud have occurred in the Netherlands. While in monetary terms the losses were not large, they generated considerable media attention and public debate (van Ginneken et al., 2012).

In New Zealand, available evidence suggests that fraud and misuse of funds are no greater (and are probably less) than under TDSMs. MIC noted:

> Our statistics indicate that clients are more likely to underspend against their allocations than overspend…The fraud rate with all of the self directed approaches in NZ is 0.4%. This is extremely low compared to some international estimates that put potential fraud at 5%… we believe this is even more positive when traditional service provider fraud is considered as a comparison. (sub. 8, p. 9)

F11.14 There is little evidence that client direction is any more open to fraud or misuse than other models of social services delivery.

Client-directed service models can be more expensive than top-down service models but the evidence is mixed

Results from overseas evaluations suggest that CDSMs can be more expensive than TDSMs (Alakeson, 2010; Barczyk & Lincove, 2010). A commonly cited reason is that clients using client-directed programmes tend to use their full entitlement, while clients of top-down services do not (Alakeson, 2010).

This finding is consistent with a 2011 financial evaluation of the MoH's IF programme. The evaluation found that allocations for clients who moved from TDSMs to client-directed funding increased by an average of 14.9% (Synergia, 2011). The report suggested that the increase was largely due to clients having their needs re-assessed as higher than they were previously. Some overseas studies have deemed this the "woodwork effect"; that is, when switching to CDSM, people commonly have their needs re-assessed, resulting in the identification of unmet needs and therefore higher budgetary costs.

When faced with the woodwork effect, rather than abandon the approach, the governments of Sweden and the Netherlands applied tighter assessment and eligibility criteria and used more stringent financial accounting.

A more recent analysis by Field, McGechie and King (2015) looks at the comparative costs of IF and non-IF users in New Zealand. The analysis also seeks to assess "the extent to which IF offers a means of containing disability services costs compared to non-IF situations" (p. 6). The analysis concluded:

- There is evidence to indicate that in cases of higher needs/complexity, costs for IF users over time fall below those of non-IF users.
- Total DSS [disability support services] costs, and to some degree HCSS costs, tend to remain more stable for complex IF users compared to complex non-IF users.
- The transition from non-IF to IF appears to mark an initial increase in costs; this is likely to relate to service needs, often arising from changes in personal circumstances at time of transition requiring IF.
- Residential care costs are lower among complex IF users than complex non-IF users. (p. 4)

Evidence from the Netherlands supports these conclusions. For example, Gadsby (2013) noted:

> [T]he value of a personal budget is 25 per cent lower than the equivalent cost of care in kind, on the grounds that there will be fewer overheads … On top of this, each year 10-15% of budget holders repay some of their annual allocation… (p. 20)

Gadsby (2013) goes on to note that the movements towards client-directed budgets across the world is based on the view that they can be an effective means of curbing the costs of health and social care "by enabling a reduction in the use of expensive residential or acute care" (p. 20). Similarly, an evaluation of the IBs in England concluded that there is some evidence that IBs are more cost effective in achieving overall social care outcomes (Glendinning et al., 2008).

The introduction of CDSMs also involves setup costs. The Wise Group submission noted that

> individualised funding models require significant administrative investment, particularly upfront. In both Australia and New Zealand the costs associated with individualised funding were underestimated; forcing host agencies to work to unrealistic schedules… (sub. 41, p. 16)

In Australia, several media reports have noted "budget blowouts" in the establishment of the NDIS. For example, *The Australian* newspaper recently reported that

> [t]he agency responsible for the $22 billion NDIS is reeling as it comes to grips with the rising numbers of eligible children... (Morton & Parnell, 2015)

However, (at the time of writing) the latest quarterly report on the sustainability of the scheme stated:

> Considering the number of participants who have entered the scheme and distribution of packages committed to these participants, the scheme is within the full scheme funding envelope. (National Disability Insurance Agency, 2015, p. 2)

A clear message from the literature is that measuring relative cost of CDSMs is very challenging due to the lack of robust and consistent data.

F11.15 The cost of client-directed service models relative to other models is difficult to determine. However, the most recent New Zealand study suggests that, over time, costs for users of Individualised Funding (IF) fall below those of comparable non-IF users.

Client-directed service models have mixed impacts on the workforce

Most studies of CDSMs primarily focus on the outcomes for clients and their families. As a result, few studies look specifically at the impact of CDSMs on workers. Manthorpe, Moriarty and Cornes (2011) captured many of the problems with the available evidence:

> [F]ew studies looked in depth at the employment relationship from the perspective of care and support workers, especially where the employee was a family member... At best, employment relationships and the significance of them were marginal considerations in many studies and reports; others had small samples or were unclear about their sources of evidence. Furthermore, there was some difficulty in establishing whether some authors meant family members giving informal care, or paid care and support workers, when using the term 'carer'. (p. 202)

The evidence that does exist presents a mixed picture. For example, some people worry that CDSMs reduce demand certainty for existing providers and therefore create a disincentive to invest in worker training and career development. Cortis et al. (2013) found that where budget holders continued with pre-existing service arrangements there was little effect on the workforces. Yet Cortis et al. also found that where providers lost clients there was indeed a disincentive to investment in staff.

Further, some international studies show that client-directed budgets have increased workforce uncertainty and led to reduced security of tenure and pay (Rubery & Urwin, 2011; Cunningham & Nickson, 2010; Wilberforce et al., 2011). Conversely, Leece and Peace (2010) reported that some care workers prefer, and have benefited from, client-directed budgets as they allow them more time to undertake tasks, making them feel less rushed and under less pressure.

Similarly, early studies of personal assistants in the United Kingdom found conflicting evidence of reduced pay and conditions, but higher job satisfaction as well as greater user satisfaction (Carr & Robbins, 2009). These studies commonly attribute low pay rates to programme design and shortfalls in funding. Clients employing personal assistants reported that the total amount of money received through direct payments was insufficient to meet their support needs and this resulted in diminished training and education opportunities for personal assistants (Adams & Goodwin, 2008).

In the United Kingdom, workforce changes include increased direct employment of personal assistants by clients and greater demand for the services of intermediary organisations (for-profit and not-for-profit),

especially assessment, planning and brokerage expertise. Cortis et al. (2013) also noted changes to the mix of skills required by frontline workers:

> [I]ndividualised funding in the UK was also perceived to change the mix of skills required from frontline workers. This has included requirements for higher level health skills in the direct care workforce; more multi-skilling across health, housing, leisure and employment issues among those in frontline roles; and a downgrading of trained and qualified social care practice to focus on personal advocacy, brokerage, risk assessment and navigating among multiple [employers] through the service system... (p. 27)

In Victoria, a small trial of the impact of the direct employment approach showed that participants with previous professional or other experience, such as bookkeeping, accounting or business ownership that helped them perform the employer role effectively, were likely to benefit most from this approach (HDG Consulting, 2010).

In the draft report, the Commission sought information from participants with first-hand experience using IF or EGL. The New Zealand Council of Trade Unions noted:

> The working conditions in the social services sector for workers delivering direct care services are well-known for their inferior employment conditions and low wages. Workers in the home care sector are more vulnerable due to working in isolation, the lack of direct employment protection, low levels of unionisation, difficulties for unions to access workers and workers to access unions, and lower levels of qualifications. This predominantly female workforce directly experience wage and employment discrimination….All of these factors create a vulnerability for the workforce, who are in work that is insecure, poorly paid and with limited career opportunities…. The extension of individualised funding models in their current forms is likely to increase levels of insecure work. (sub. 221, p. 22)

However, several submissions from people using IF stated that the pay and conditions of staff employed under IF are better than the staff had experienced under the contracting-out model. These submissions suggested that people employed under IF typically develop deep and trusting relationships with their carers, resulting in more secure employment and higher levels of pay (Box 11.2). The Commission has not received convincing evidence that contradicts these submissions.

An analysis of a sample of 200 clients from the MIC database found:

- the average length of time that the clients in the sample have been with MIC was about five years;
- on average, carers have been employed by clients for over two and a half years; and
- the average hourly rate of the carers was $18.39 (significantly above the minimum wage of $14.75).

Box 11.2 **Some submissions from IF users about worker conditions**

Jackie Monastra

> The staff assessing our needs usually dealt with the elderly and could not grasp what it was like to be living with our daughter or how much support she needed.
>
> The Carers they offered had little or no experience with children and were not appropriate to help us. ... One agency took $5 an hour for almost 2 years and did very very little outside of manage payroll! Our Carer at the time was also employed by them as a contractor and was not eligible for paid leave entitlements….Now I have the ability to source and employ my own staff. To make sure they are appropriately trained and a good match to our daughter and our home. I also have the ability to ensure that they are appropriately remunerated and receive their leave entitlements….I have had my current support person for 8 months and she is amazing! We found her ourselves and we now get the support we need, when we need it, from a woman who genuinely cares about our daughter's wellbeing and has so much to offer from a professional perspective. (sub. DR230, p. 1)

Jennifer Natusch

> We have had our current support people for a year now. We now have some flexibility in how we live our lives, as do most other New Zealanders. We can change the hours each week, the days each week to make the care meet Kate's and the carer's needs, and be responsible employers.

> Our carers get a much higher rate of pay and better working conditions under EIF. We have had no problems finding carers or retaining them. (sub. DR160, p. 1)

Christine and Herman Veltman

> I have had my current support people/person for almost 2 years. What a difference it has made. He gets the support he needs when he needs it from people who value and respect my husband. This allows me to continue being his wife and not just a carer. On average employees tend to get a higher rate of pay and better working conditions under IF. I certainly pay my staff as well as I can as they are my lifeline. (sub. DR205, p. 1)

Judy Howard

> We have only being using IF for the last 10 months and what I love about it is the flexibility for me to set the hourly rate, hours, values and duties… The support workers also like it as things are very clear in what is expected and also we encourage and pay for support workers to get the training that we think would benefit the girls. (sub. DR210, p. 1)

Alma Robertson

> I have had my current support people for 5 years, and what a difference it has made to my life, my health and wellbeing and to my dignity. I now get the support I need when I need it from people who value and respect me….The value of being able to employ my own staff is great, hours are more flexible there is no need to rush and short cut my needs due to time restraints placed on the Home Support agency staff.… The personal attributes that each of them bring, to the position in my opinion have been a caring, trusting and sympathetic approach to my needs which has made them better people personally and also toward others. (sub. DR215, p. 1)

F11.16 Limited evidence is available on the impact of client-directed budgets on the conditions of workers. Submissions to this inquiry suggest the pay and conditions of workers employed under Individualised Funding are better than comparable workers employed under the contracting-out model. The Commission has not received convincing evidence that contradicts these submissions.

Conclusion from the evidence and experience

Table 11.3 provides a summary of what the literature says about the concerns raised in section 11.9.

Table 11.3 Literature on concerns about client-directed service models

Concerns	Conclusions and themes from literature
CDSMs reduce service quality	Little evidence is available to support the belief that CDSMs lead to a reduction in service quality. Strong evidence suggests that CDSMs increase wellbeing and client satisfaction with services. Little evidence is available that suggests (objectively measured) health outcomes are any better or worse using CDSMs than using TDSMs.
Some people cannot make choices	Ways are available to assist clients with communication impairments to make choices. Evidence suggests that the use of representatives allows people to benefit from choices even when they are not able to communicate all preferences.
CDSMs open vulnerable people up to abuse	Measures to protect vulnerable clients are vital under any approach to the delivery of social services. Little evidence is available to suggest that the risk of abuse is higher or lower using CDSMs than using TDSMs.

Concerns	Conclusions and themes from literature
People don't want to shop around for providers	While data is scarce, some evidence suggests that, when given the choice, clients select different services (or models of delivery) than previously available under TDSMs. People are most likely to value choice when they see real differences in the services that providers offer. People generally take up choice once made available to them.
CDSMs can lead to people becoming isolated from their community	Little evidence links client direction to increasing or decreasing levels of social isolation.
CDSMs are more costly for government agencies	Some evidence shows that the budgetary costs of CDSM can be larger than alternatives. This is particularly evident when assessment and eligibility criteria are poorly designed, and where the system has latent demand. Yet evidence also shows that the cost of servicing complex needs can be lower than for alternative models.
CDSMs are more open to fraud and misuse of funds	Overseas programmes have experienced incidences of fraud. In New Zealand there is little evidence to suggest that instances of fraud are higher under CDSMs than under TDSMs. Some evidence suggests that fraud is lower under CDSMs in New Zealand.
CDSMs are harmful for workers	Available evidence of the impact on the workforce is limited and shows mixed results, reflecting the different client-directed models used. Evidence from the use of IF in New Zealand suggests carers directly employed by clients (or their agents) receive higher rates of pay than those working directly for providers.

11.11 Which additional services may benefit from client choice?

This section looks at the types of services and clients that may benefit from the use of CDSM.

Submitter views on where client-directed service models have potential

In the inquiry issues paper published in October 2014, the Commission asked participants which client-directed models were suitable for CDSMs (specifically client-directed budgets). Subsequently, many submissions to the inquiry suggested areas where the client-directed approaches may be suitable.

Extending the use of client-directed budgets in New Zealand had wide, but not unanimous, support. The services most commonly mentioned in submissions and during engagement meetings were:

- disability support services;
- home-based support for older people;
- respite services;
- family services;[113] and
- drug and alcohol rehabilitation services.

Other suggestions include preventive healthcare services (such as vaccinations) and housing services. Yet, several submitters warned against viewing CDSMs as a panacea for improving services. For example, the NGO Health and Disability Network noted:

[113] "Family services" refers to family counselling services, parent education services, family planning services and budgeting services. It does not include crisis counselling or child protection services.

> Client-directed budgets or 'individualised funding' should not however, be seen as an overarching solution that is applicable to all clients and families. It works best and will only really work for individuals and families who are willing and competent to put the time and effort into making arrangements independently to 'purchase' the services they require. Individualised funding, while having many advantages, transfers significant responsibilities from the funder to the individual; e.g. getting value for money, assuring quality of service, etc. (sub. 70, p. 6)

These submitters suggested that clients should have access to a continuum of options that will be needed in many cases. The Commission agrees with this view.

Box 11.3 **Submitter comments on the use of client-directed service models**

Te Rūnaka o Ōtākou

> The home-based care and disabilities sectors are directly suited for client-directed budgets. This principle needs to be taken further utilising a Co-Production model for commissioning across all service purchasing areas… In an ideal world all services and purchasing arrangements would follow the client and be co-ordinated across a defined community. (sub. 110, p. 6)

Home and Community Health Association

> Providers involved in IF for under 65s have commented that they can see how it could work in individual over 65 cases. It could suit, for example, situations where families wish to keep their older family member in the home, and can use a mix of family and employed support, by using available allocated funding.
>
> We think that there needs to be a great deal more flexibility around respite care, and suggest that client directed budgets could be effectively applied in relation to that element of community support. (sub. 114, p. 10)

Presbyterian Support New Zealand shared its experience with client-directed budgets for older people:

> Client directed budgets for Older People have been in place for a small number of clients in Otago hosted by Presbyterian Support Otago. In terms of outcomes clients identify the following advantages of Individualised Funding over more traditionally funded services:
>
> - greater flexibility around care arrangements
> - ability to employ staff directly and more stable workforce with less turnover
> - greater ability to fund a range of services that are not available through mainstream funding
> - greater sense of control and autonomy over the service being provided
> - ability for IF to be more responsive to changing needs. (sub. 76, p. 7)

START

> Services in the crisis space need to be demand driven but recovery services could operate on a voucher system whereby a professional assessment of individual need would result in the provision of vouchers to 'purchase' services of choice. Service providers could be accredited by a Government department for quality assurance in much the same way that the present MSD accreditation and auditing processes operate. (sub. 121, p. 8)

Pharmacy Guild of New Zealand

> There are a number of services that community pharmacy provides that are well suited to a client-directed budget:
>
> - Preventative health interventions e.g. vaccinations
> - Healthcare monitoring e.g. Community Pharmacy Anti-Coagulation Management Service (CPAMS)
> - Managing in the home e.g. weekly preparation and delivery of medication packs. (sub. 11, p. 4)

Platform Trust

> Budgeting, counselling, youth services, whānau ora navigation/pathway, social housing, health, justice etc. Longer-term rather than shorter term individual services. (sub. 45, p. 17)

Healthcare of New Zealand Holdings Ltd

> Client-directed budgets are likely to be successful in areas where – the client (or their family) has the best information about what interventions/services will improve their quality of life, there is a defined amount of funding that they are entitled to (the client directed budget), an adequately objective process exists for determining that entitlement, adequate support is available to assist them to make decisions and plan expenditure, and there is an effective market of service providers for them to work with. (sub. 51, pp. 6–7)

Submitter views on where not to use client-directed service models

Some submitters highlighted services they felt were not suitable to client-directed budgets. The New Zealand Disability Support Network suggested that client-directed funding is not appropriate in cases where people are convicted of an imprisonable offence:

> A few services, however, are not suited to client-directed budgets. These would include behavioural support services, as well as services to support the administration of the Intellectual Disability (Compulsory Care and Rehabilitation) Act 2003. The Act provides for the compulsory care and rehabilitation of individuals with intellectual disabilities that have been either, i) found unfit to stand trial or, ii) convicted of an imprisonable offence. There are two different levels of care – Secure Care (hospital level or community based) and Supervised Care (community based). Care is in designated secure or supervised facilities, respectively, and the care recipient is required to remain in the designated facility, other than for periods of approved leave. (sub. 47, p. 10)

Submitters also stressed the need to consider the immediate circumstances facing a client and their psychological state:

> The psychology of clients is also an important consideration. The time when clients decide upon services is frequently in the early days of meeting Blind Foundation criteria which is stringent enough that the sight loss is severe at this point. Sight loss is a traumatic event and often a deeply emotional, life altering time. Whether clients want to have choice during this time is debatable. In many cases it is more likely that clients and families would choose to be pointed to experts who can offer assessment, services and counselling in a single package rather than shopping around. (Blind Foundation, sub. 16, pp. 24–25)

> The very real risk for clients is that they are "empowered" to select services when they are vulnerable, not necessarily well-informed about the issues they are seeking to address, and open to exploitation, inappropriate service provision and potential damage…We have grave concerns about the interpretation of this recommendation and fear that many vulnerable people could be significantly disadvantaged if very careful processes are not in place and actively monitored. (South Waikato Social Services Group, sub. DR185, p. 6)

Others stressed that the system was already working well for some clients:

> While we acknowledge that there is a place for client-directed budgets international experience has shown that it is not the right option for everybody. It is important to acknowledge that the current system is working well for some people. (Workbridge, sub. 102, p. 10)

Principles for successful client-directed service models

Experience with CDSMs in New Zealand and overseas suggests that the model will be most beneficial where:

- the benefits of the service are experienced primarily by the client (ie, the broader costs to society of making a wrong decision are small);
- the costs of making a wrong decision are not catastrophic or lead to irreversible harm for the client (ie, there is an opportunity to safely learn and experiment with the mix of services);

- it is possible for clients (or their representative) to be given enough information to make informed decisions;
- there are multiple service providers (or the potential for new providers to offer services), allowing clients real choice;
- the cost to the individual of switching between services providers is not excessive or harmful to the client; and
- there are potentially several ways that providers could deliver services.

By contrast, services may be less amenable to client choice (or at least fewer choices) in situations where:

- the choices made by clients have broader implications for society or would create a significant risk to society;
- services primarily involve the use of the coercive powers of the state;
- the number of providers is limited (or there are significant barriers to clients employing people directly);
- delivering a service to a consistent national standard is important;
- clients do not want choice, or are happy to have decisions made for them;
- the individual is experiencing acute psychological/physical trauma;
- the preferences of clients are relatively uniform and the potential for scale economies exist (ie, large economies of scale can be achieved without a greater loss in demand-side allocative efficiency); and
- the allocation of uniform services to all clients is important for social equity.

Applying the principles to selected services

Table 11.4 provides a summary of the expected benefits and disadvantages of applying client-directed budgets in four areas: home-based support of older people, respite services, family services and drug and alcohol rehabilitation services.

Table 11.4 Applying principles to selected social services

Question	Home-based care for older people	Respite services	Family services	Drug and alcohol rehabilitation services
Are the benefits of the service experienced primarily by the client?	Yes	Indirectly (via the wellbeing of carers or family)	Yes (there are also positive benefits to society)	Yes (there are also positive benefits to society)
Do clients face interlocking and mutually reinforcing problems?	Yes	No	Typically yes	Typically yes
Are the costs of poor decisions catastrophic or irreversible?	Generally not (assuming service is within legislated standards)	Generally not (assuming service is within legislated standards)	Generally not (assuming service is within legislated standards)	Generally not (assuming service meets a minimum standard)
Can clients make informed core choices?	Generally yes. Some may need support	Yes	Generally yes. Some may need support	Generally yes, but will depend on psychological state
Are there multiple providers or the potential for new providers?	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas	Generally yes. May be few providers in small or isolated areas

Question	Home-based care for older people	Respite services	Family services	Drug and alcohol rehabilitation services
Is the cost of switching excessive or harmful?	Generally not (however relationship can be important)	No	Would depend on relationship established – continuity can be important	Maybe, depending on the circumstance
Are there several ways the service could be delivered?	Yes	Yes	Yes	Yes
Is it easy for new providers to enter the market?	Yes	Yes	Yes	Yes

R11.1 When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society.

R11.2 The Government should investigate, and where appropriate trial, client-directed service models for home-based support of older people, respite services, family services, and drug and alcohol rehabilitation services.

R11.3 The Government should pursue further extension of client choice in disability support, drawing on the lessons from Enabling Good Lives.

11.12 Designing client-directed service models

New Zealanders will not benefit from poorly designed and implemented CDSMs.

Designing and implementing practical and efficient CDSMs requires a deep understanding of alternative design options and the incentives and fiscal implications of choosing one option over another.

Designing a client-directed programme is a complex exercise. It takes time and resources for officials, clients and providers to understand the implications of a new approach. It also takes time and resources for providers to learn how to work under the new system, and to develop organisational structures and processes that fit with the new way of working. For example, the NDIS in Australia will take 10 years to implement from the original conception of the idea. Government agencies will need to consider what, if any, assistance they should give providers to help transition to the new approach.

The existing institutional setting is an important consideration for the design of any new approach. These institutions determine the fundamental conditions that the approach will operate in and have significant impact on the outcomes achieved.

Existing formal institutions impacting the design of CDSMs include legislation such as the Public Finance Act 1989 and the Human Rights Act 1993. These formal institutions often set boundaries around the use of public money or the procedures that officials must follow when public money is used. Those designing the system need to have a good understanding of the impact of institutions so that either:

- CDSMs can be designed within the boundaries of existing institutions; or
- reforms to existing institutions can be identified and implemented.

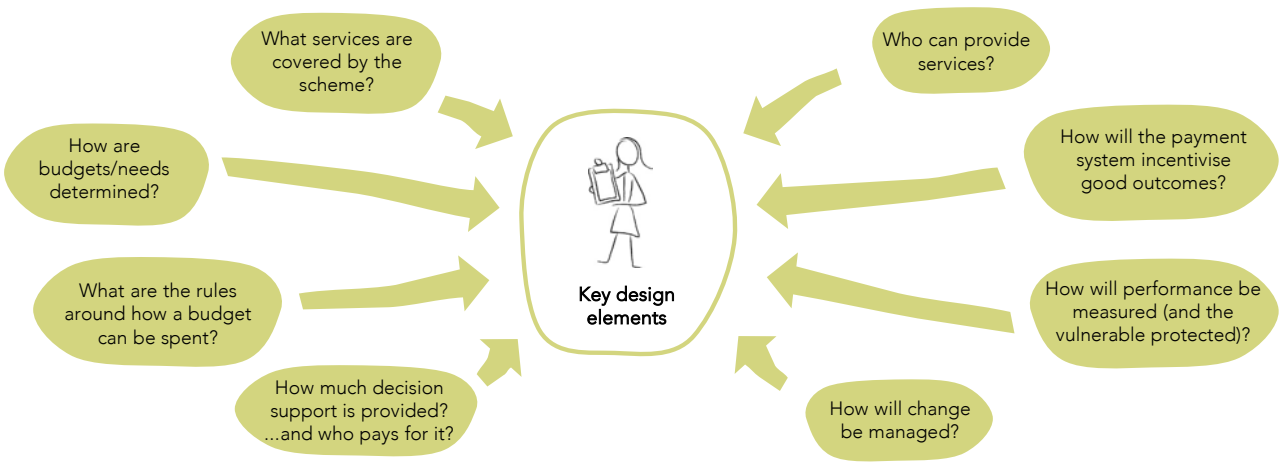
Informal institutions such as society's values, customs, norms and cultures also need to be understood and considered. Client-directed models can often challenge the underlying assumptions of sections of society (including the culture of government agencies). This can lead to resistance from groups that feel threatened by the change in approach (Chapter 4).

Experience to date suggests some key design questions.

- What service will the scheme cover?
- Who will assess client needs and how will they do the assessment?
- Will there be restrictions around the types of services that a client can access?
- Will clients be able to "opt-out" of the scheme if they don't want to manage their budgets? Will they have the option of managing some functions and not others?
- What information will clients need to ensure that they can make informed decisions?
- Will clients be able to employ staff directly? If so, what steps should agencies take to ensure clients are aware of their rights and responsibilities as employers?
- Which government agencies will fund the programme? Will funding be pooled? If so, what arrangements need to be put in place to allow this to occur?
- What price will providers be paid for their services? How is this price determined?
- How will the scheme incentivise good performance? Who will measure performance (and how)?
- What roles will different agencies play? How will these roles be coordinated and governed?
- Is the design consistent with existing government institutions and frameworks? Where are the likely sticking points? How can the sticking points be overcome?
- Are institutions or functions missing? If so, what new institutions does the Government need to create? What form and functions will these institutions have? Who will fund the new institutions?
- What transaction costs are the different players in the system likely to face? How can transaction costs be minimised?
- What role will clients and the community have in designing the new approach?
- How will change be managed?

Appendix D provides some guidance on the design of CDSMs, based on experience in the area of disability services.

Figure 11.3 Key design elements of client-directed service models



11.13 Choice can improve outcomes

The social services system will work best when the core choices are made by people with the information, incentive, capability and authority to choose the combination of services (and service delivery methods) that best meet the needs of clients. In many cases, this will be the client or their family/whānau. Yet New Zealand's social services system has many instances in which clients have little say in who provides services, and in what, how and when services are provided. Problems with the existing arrangements include:

- authority to make choices often rests with those that lack information on client needs;
- choices are not made in a coordinated manner across the system, leading to overlaps and inconsistency;
- institutional incentives rarely reward (and can work against) making choices that meet the client's needs; and
- a lack of authority to make choices disempowers clients.

Importantly, the Commission does not view client-directed service models as a panacea for improving all social services. Client-directed budgets are most likely to benefit clients with complex requirements who have the capacity and motivation to make informed choices about the combination of services that best meets their needs. These clients generally fall in quadrant C.

Voucher systems on the other hand, are most likely to benefit clients with relatively straightforward needs who – like those in quadrant C – have the capacity and motivation to make informed choices (Chapter 6). These clients generally fall in quadrant B.

12 Better purchasing and contracting

Key points

- *Contracting out* is the primary service model used for non-government social service provision in New Zealand (Chapter 6). Government agencies have several thousand service delivery contracts with many thousand not-for profit and for-profit providers.
- Submitters (predominantly service providers) reported many problems with contracting, and considered that tendering procedures, and contract design and administration need to be improved.
- Many of these problems may result from poor commissioning, including inappropriate selection of a contracting out service model. Such problems are unlikely to be ameliorated by improved contracting.
- Contracting out is well suited to some services and to some client types, particularly those in quadrants A and B.[114] Contracting out is a poor match to situations requiring integrated responses and packages tailored to specific clients (ie, quadrants C and D) (Chapter 6). It is important that contracting out is done well, whether selected by a robust commissioning process or a legacy of past decisions.
- Current contracting regulations and guidance from the Ministry of Business, Innovation and Employment (MBIE), the Treasury and the Office of the Auditor-General (OAG) is difficult for agencies to follow and apply and this is a potential source of confusion.
- To improve clarity, the Government should publish separate Rules of Sourcing for Social Services. These rules should make it explicit that contracting out is just one of several models available for the purposes of commissioning social services. A single set of guidelines to support the rules should be developed and training provided.
- When contracting out, social services agencies should:
  - ensure that relevant information is provided to all participating suppliers in tender processes;
  - meet their own tendering timelines and report yearly on their compliance with timelines and deadlines set out in tendering documentation;
  - take account of providers' past performance when assessing bids;
  - apply a standard duration of three years to social services contracts unless risk analysis indicates otherwise;
  - adopt a risk-based approach to monitoring contracts; and
  - expand the use of contracting for outcomes.
- Improving capability for contracting out should be developed alongside improved capability for commissioning (Chapter 6).

Chapter 6 introduced *commissioning* – the set of inter-related tasks that social services agencies need to take to turn policy objectives into effective social services. Choosing the service model best suited to a social service and its clients is one of the key commissioning tasks set out in Figure 6.1. *Contracting out* is one of

[114] See Chapter 2 for a description of the quadrants.

seven described service models. It is the primary service model used for non-government service provision in New Zealand. Contracts are also a feature of other service models, though they play a lesser role.

Contracting out is well suited to some services and to some client types, particularly those in quadrants A and B. Contracting out is a poor match to situations requiring integrated responses and packages tailored to specific clients (ie, quadrants C and D) (Chapter 6). It is important that contracting out is done well, whether selected by a robust commissioning process or a legacy of past decisions.

Submitters (predominantly service providers) reported many problems with contracting, and considered that tendering procedures, and contract design and administration need to be improved. Many of these problems may result from poor commissioning, including inappropriate selection of a contracting out service model. Such problems are unlikely to be ameliorated by improved contracting – these should be addressed closer to their root cause. However, the Commission observed significant evidence of poor contracting behaviour by government.

This chapter largely addresses the issue of contracting with not-for-profit providers (who provided most feedback about contracting practice) for the delivery of social services but should apply equally to for-profit providers.

Section 12.1 describes the extent of contracting out. Section 12.2 covers why contracting is both attractive and challenging for government agencies and why it has limitations. Section 12.3 describes the legislation, rules and guidelines surrounding contracting. The issues raised by inquiry participants are summarised in section 12.4 and opportunities for improvement are explored in section 12.5.

12.1 Contracting out in social services

Government agencies have several thousand contracts with many thousand not-for-profit (NFP) and for-profit (FP) organisations for delivering social services (Chapter 2).[115] The New Zealand Treasury (2013) estimated that social services account for about $12.4 billion of procurement. It did not indicate how much was through contracts, but in 2011/12 the Ministry of Social Development (MSD) spent $574 million on social services through more than 6 000 contracts and grants to almost 3 000 providers, with almost 90% of contracted expenditure going to around 30% of the providers (New Zealand Treasury, 2013).[116] Contracting therefore needs to be done well. However, performance too often falls well short of best practice.

Further, approaches to contracting are evolving and while many submitters see significant room for improvement, contracting out as a service model may not be the best option (Chapter 6). Nevertheless considerable effort is being applied within government to improve contracting and there is certainly room to adopt better practice where contracting out is the best model to be applied.

Box 12.1 **Commissioning, contracting out and using contracts in other service models**

"Contracting out" and the "use of contracts" are not synonymous in the context of this report.

Contracting out is one of seven service models that are part of commissioning (Chapter 6). Good commissioning is about judging which model will best match the characteristics of a defined population or client group to achieve a specified outcome. Contracting out is the primary service model used for outsourcing social services in New Zealand and is the subject of this chapter.

Clients with multiple, complex needs (in quadrants C and D) are not well served by the current approach to purchasing social services which is dominated by contracting out (Chapters 2 and 4). This report recommends different service models and approaches be adopted to meet the needs of these clients (Chapters 10 and 11).

[115] 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.

[116] In 2014/15 MSD had around 3 700 social services contracts with some 2 155 providers financial year (Chapter 2).

Contracts will be a useful means of purchasing in other service models as well as in the contracting out model. For example contracts are likely to be useful for managed markets, and some client-directed service models. These will need to be carefully tailored to the service model. In the shared goals model different forms of agreements are needed, such as alliance agreements and memoranda of understanding.

12.2 The attractions and challenges of contracting out

A contract is a formal, legally enforceable agreement between two or more persons or entities, involving a commitment to do something in return for a payment. Contracts with external providers are almost always issued by an individual agency.

The attractions of contracting out

Purchasing social services through contracts typically holds attractions for governments, including:

- Providers, especially NFP providers, may have built up relationships and trust with their clients, which are difficult for government to emulate.
- Contracting can create an entirely new service culture. Governments have sometimes turned to external providers where a "fresh start" is required (Sturgess, 2012). This was one reason why the UK Government introduced prison contracting – to assist in driving what the Blair Government came to call its "decency agenda".
- Contracting can enable government to pay for outcomes rather than funding inputs, and to step back from day-to-day management. It "demands that policy makers make a clear decision about their desired outcomes from a service, and then to step back to allow room for providers to deliver. … The contract has become a powerful tool in the devolution of management authority" (Sturgess, 2012, p. 51).
- Contracting can reduce costs. Private prisons in the United Kingdom are estimated to have achieved cost savings of between 11% and 30%, and the Acacia prison in Western Australia is about A$15 million a year cheaper to run than the least expensive public facility. However, such comparisons are complicated by differences between prisons (New South Wales Legislative Council, 2009).
- Governments have sometimes found that service contracting drives greater transparency in service delivery because of the need to specify requirements. On at least one occasion the international inspection and verification firm SGS was contracted by a government in the developing world to manage its customs service because of ongoing concerns about corruption.

The challenges – and limitations – of designing and administering contracts

Effective contracts impose clear obligations, and reward performance that is measured against these obligations. This section describes features of contracts that influence their design and administration. Appendix F provides more details.

The principal–agent relationship

The principal–agent relationship is a useful framework for analysing many contracts. In the social services sector, the principal is usually a government agency, while the agents are often, but not always, NFP organisations. The New Zealand Treasury (2013, p. 8) distinguishes between "corporate NGOs", which operate more like a business, and "small NGOs", which "rely more on individual passion and commitment, and being well connected to the local community". So government contracts with NFPs need to be effective to take account of many different types of organisations, operating in a variety of client situations and services. A "one-size fits-all" approach is unlikely to succeed.

The principal in a contract engages an agent to undertake a task or perform a service to advance a desired objective. In general, the principal and agent have differing incentives and information.

To encourage the agent to act in the principal's interests, the principal needs to:

- specify the required objective;
- design incentives that are mutually acceptable while aligning the agent's interests with their own (usually by rewarding the agent for achieving the objective or by penalising failure); and
- monitor whether the objective is being achieved, based on observable information.

Ideally, payment is made in exchange for achieving a clearly specified and measurable outcome. However, this ideal is often difficult to achieve and contracts instead specify inputs or outputs, rather than outcomes (Box 12.2):

> [I]t is very important to distinguish between 'contracting for outcomes' and 'outcomes focused contracts'. When we refer to contracting for outcomes…we refer to funding that is linked to performance or results. Outcomes focused contracts, on the other hand, are still specified in terms of inputs or outputs, but there is an emphasis on how an activity improves higher level population or client outcomes. (New Zealand Treasury, 2013, p. 2)

Outcome-focused contracts are predicated on an anticipated link between the inputs or outputs and outcomes. If this link is weak or absent, "providers are not rewarded according to how good their service is, but whether they enact certain processes" (Haldenby, Harries & Olliff-Cooper, 2014, p. 30).

Negotiating and administering contracts involves transaction costs, such as legal fees to draft and check the contract, the cost of setting up and running a disputes resolution procedure, and reporting requirements. These costs are incurred to improve contract operation.

Even when government is the principal, it is often not the direct recipient of the services. Rather, it purchases services that are then made available to, for example, an unemployed person or a person with a disability.

Incomplete contracts

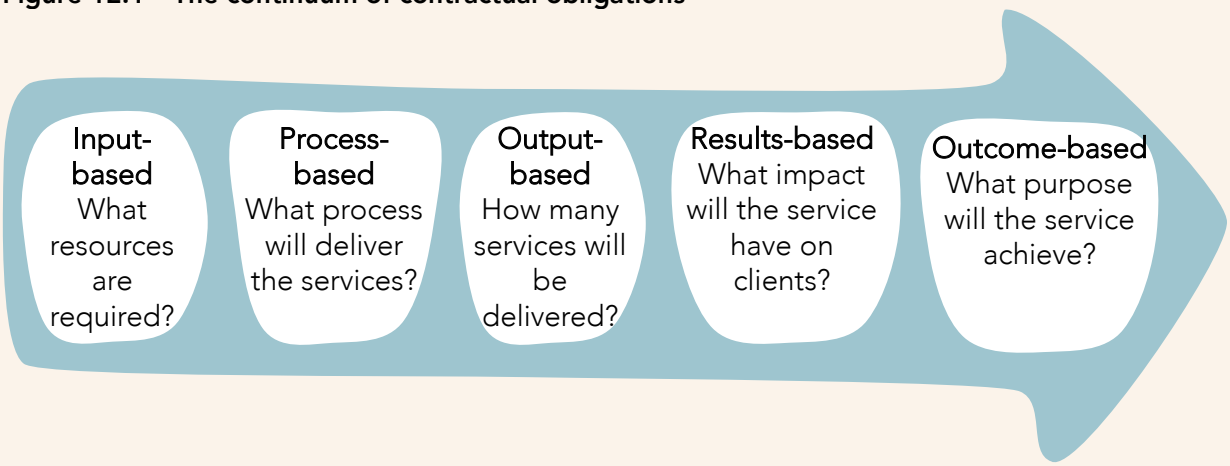
Contracts are normally incomplete, because they do not specify remedies for all possible future contingencies. It is usually not feasible to identify all risks, even with the best drafting. Therefore, contracts may:

- leave the problem of how to deal with unanticipated situations that are not covered;
- distort behaviour, as the parties focus on contracted elements while ignoring others that may also affect the intended outcomes, but are more difficult to observe;
- focus on inputs, about which there is usually more complete information, rather than on outputs or outcomes (Box 12.2); and
- become outdated if circumstances change, but contracts are rolled over rather than amended (section 12.4 provides examples).

Box 12.2 **Specifying contracts for providing social services**

Typically, contractual obligations are specified in one of several ways (Figure 12.1). Moving from left to right across the figure, obligations match more closely to desired objectives but are typically more difficult to measure.

Figure 12.1 The continuum of contractual obligations



More specifically:

- *input-based obligations* specify the resources a provider must expend in delivering the service (eg, the number of trainers that must be present at a training course);
- *process-based obligations* specify the process or methods that a provider must use when supplying a service (eg, the content and method of instructing a training course);
- *output-based obligations* specify the services that a provider must supply (eg, the number of attendees that complete a training course);
- *results-based obligations* specify the impact that the purchaser expects the provider to have (eg, the percentage of trainees that were able to find work); and
- *outcome-based obligations* specify the objectives the purchaser expects the provider to deliver (eg, a reduction in youth unemployment).

Some problems caused by incomplete contracts will be less serious if there is alignment of mission, values and objectives between principals and agents, as is often the case with NFPs and may also occur with some FPs. The closer the alignment, the less is the risk that the agent will under-deliver on contract obligations that are difficult to observe. Alignment of mission orientation can substitute to some degree for the use of incentives (and tight specification) in contracts (Appendix F). Government agencies need to avoid over-specification of contracts, as this can undermine the intrinsic motivation of NFPs and their staff in working to improve outcomes for their client groups.

Managing risk

Efficient contracts clearly assign responsibility for various risks (eg, cost overruns, unexpected changes in demand or provider under-performance) to those who are best placed to manage them. The challenge is to design contracts that anticipate risks without unnecessarily hindering beneficial risk-taking and innovation.

The aim should be to achieve an *optimum* – rather than a *maximum* – transfer of risk away from government. However, if ministers and government agencies expect to be held accountable for the failures of providers, they may seek to reduce their exposure by controlling what the provider does, through contracts that specify inputs, processes and outputs. Yet this is likely to reduce providers':

- incentives and room for innovation;

- flexibility to respond to changes in clients' needs or in the environment; and
- scope to work together and to supply integrated bundles of services (Spiller, 2008).

Further, trying to transfer risk to providers can backfire on the Government, which may in any event bear the cost of inappropriately transferred risk through higher service charges or increased likelihood of default:

> Ultimately, providers will not bear risks that they cannot control. They may agree to. They may attempt to. However, in the final analysis, if providers lack the levers to mitigate their risks, they will fail, and hand the risk back to the state. Therefore, it is in government's interest to do all it can to ensure the level of risk it is asking providers to take on is appropriate and manageable. (Haldenby, Harries & Olliff-Cooper, 2014, p. 35)

There are ways to manage risks without introducing excessive prescription. These include tying payments to the delivery of services or to quality performance criteria; imposing obligations on suppliers to have adequate financial reserves or insurance cover; and tying contract renewal to contract performance.

Incentives for opportunism

Both parties usually incur costs if they leave a contract, particularly if they have invested in specific assets that have more value in a particular use or in a particular relationship. This creates incentives for opportunistic behaviour, because one party can "hold up" the other, to the value of that specific commitment. For example, the Commission heard of a case where a funder during a short-term pilot required a provider to develop intellectual property, which was shared with the funder, but then offered the longer-term contract to a different provider. To protect against opportunism, private contractors may seek contract specificity, commit to investing in fewer and smaller specific assets, and favour forms of rewards that are more difficult for the principal to appropriate. Opportunism can also happen on the other side of the contract. For example, a contractor could seek to exploit government's aversion to public failure by bargaining for additional payments.

Relational contracts

Relational contracts rely on informal agreements and self-enforcement, based on the parties agreeing to contract variations without formal re-negotiation or litigation. They can be particularly useful where dimensions that are hard to measure are important.

Long-term relationships form the basis of many private sector contracts. These relationships can span multiple contract periods – creating an incentive for both parties to cooperate (as their actions can impact their likelihood of securing future contracts). The arrangements can take different forms. The "keiretsu" system used in Japanese industry (eg, by Toyota) is illustrative. Under this approach, procurers maintain relationships with a small set of suppliers, combining information sharing, close monitoring and limited competition (Aoki & Lennefors, 2013). There are also alliance relationships, which are based on a collaborative approach to project risk, project management and the adoption of mutual objectives and outcomes. They tend to be used in infrastructure projects.

Relational contracts reduce cost by enabling adjustments to service delivery, when unforeseen or unexpected circumstances arise, to occur without re-negotiation (Baker, Gibbons & Murphy, 2001; Spiller, 2008). The Blind Foundation argues that successful relational contracts can occur where contact between the two parties is consistent and personal, and relationship managers are empowered to modify and adjust the contract or how it works (sub. 16). National Services Purchasing suggested that:

> Relational contracts are best when there are close, trusting, and highly communicative relationships between funder and provider at governance and operational levels, with stable personnel and organisational cultures. (sub. 111, p. 9)

The high trust contracts initiative, introduced by MSD in 2009, attempted to move towards relational contracts. It recognised that stable and established providers with a good track record pose less risk and that, as a result, inflexible contract terms could be removed. Some participants commented that the introduction of high trust contracts had been a real improvement. However, the Commission also heard examples of contract managers introducing conditions into high trust contracts that made them indistinguishable from highly specified contracts. And the Public Health Association noted that "gold

standard" commissioning has been compromised by, among other things, "suspicion of relational contract management" (sub. 122, p. 6). This suspicion may arise because relational contracts do not fit easily within the public sector accountability framework. To avoid the risk of cronyism and favouritism, administrative rules limit the discretion of contract managers to make ad hoc adjustments to service delivery, and yearly funding cycles reduce the certainty of future contracts (and therefore the incentive to cooperate).

Competitive tendering

Competitive tendering for contracts can improve the efficiency of service delivery.

- Specifying the objective, incentive arrangements and performance measurement can enhance accountability.
- Open tendering reveals the prices at which providers are willing to provide specified services.
- Allowing entry by new providers and encouraging poor performers to reform or exit can stimulate efficiency and innovation. This requires that tenders are not so frequent that providers cannot secure the gains from innovation, or so infrequent that they are insulated from competition.
- Opening itself up to competition from external providers can improve government service delivery.

However, the design and implementation of tenders is complex and competitive tendering is not always the right approach. This may be in a situation where there is only one viable provider or where there are multiple providers and the best results will come from forming an alliance between them, as in the shared goals model (Chapter 6). In the latter case competitive tendering could lead to fragmentation and lack of trust where integration and close relationships are critical to achieving the outcomes being sought.

Impacts on quality

Tenders based on lowest price are well-suited to procuring simple services whose characteristics are easily specified in advance and for which there is little risk of changing specifications post-tender. However, when quality is important and is difficult to measure, competitive tenders can result in lowered effort on non-measured aspects of service quality.

Frequency

If providers feel exposed to the risk of contract non-renewal they may make fewer or less-specific investments. Aligning the length of tendered contracts with the investment horizon of the providers would reduce such under-investment.

Other features

Appendix F discusses other features of the tendering process, such as the information structure; disclosure of project information; the capabilities of public sector tendering and enforcement institutions (eg, regulatory bodies); and the credibility of commitments by public bodies. It notes that stronger mission alignment in NFPs supports non-monetary incentives for quality provision, but that this advantage relative to FP firms must be weighed against the ability of the latter to pay more and so attract more able workers, who are more productive and so enable the FP to remain competitive in spite of their higher wages.

Section 12.3 demonstrates that many NFPs feel that tenders impose excessive costs, can reduce quality, and are too frequent. Section 12.4 puts forward proposals for addressing these concerns.

12.3 The framework for government contracting of social services

This section describes the legislative, regulatory and guidance framework within which government purchasers operate. Government agencies that fund non-government providers need to operate within the public accountability legislative framework that applies to all public expenditure (Box 12.3). The pressure for accountability that this framework creates encourages the use of contracts (OAG, 2006).

Box 12.3 **Public sector accountability framework**

Ministers are accountable to Parliament for the manner in which public funds are spent, and public servants are subject to public law and administrative requirements designed to ensure that public funds are used in a lawful, transparent and accountable manner.

The main elements of the public sector accountability framework are:

- overarching "machinery of government" statutes – for example, Constitution Act 1986, State-Owned Enterprises Act 1986, State Sector Act 1988, Crown Entities Act 2004, Public Finance Act 1989, Local Government Act 2002;
- adherence to the principles of the Treaty of Waitangi;
- sector- or entity-specific legislation – for example, Education Act 1989, Children, Young Persons and Their Families Act 1989, New Zealand Public Health and Disability Act 2000, Vulnerable Children Act 2014;
- rights-related legislation – for example, New Zealand Bill of Rights Act 1990, Human Rights Act 1993, Privacy Act 1993;
- oversight and accountability legislation – for example, Local Authorities (Members' Interests) Act 1968, Ombudsmen Act 1975, Official Information Act 1982, Local Government Official Information and Meetings Act 1987, Protected Disclosures Act 2000, Public Audit Act 2001; and
- ethical and administrative guidelines that include the Cabinet Manual 2002 and the State Services Commission's Public Service Code of Conduct.

Source: OAG, 2006; Productivity Commission.

Government rules of sourcing

In 2013 MBIE issued the Government Rules of Sourcing. (The third edition was published in 2015.) The purpose of the Rules is to:

- modernise the Government's approach to procurement to align with good international practice and provide better value;
- encourage agencies to use more strategic approaches and commercial expertise when procuring; and
- encourage agencies to engage early with the market to stimulate competition and innovation, and work with suppliers to develop better solutions, include procurement requirements in Cabinet directives, Whole of Government Directions and legislation (MBIE, 2015b).

Sixty-six procurement rules cover all aspects of contracting for and acquiring goods, services and works; from identifying the need to either the end of a service contract or the end of the useful life and disposal of an asset. For the most part the rules do not differentiate between social services or other services or assets. In addition to the rules there are five procurement principles. All government agencies must have policies that set out how they will comply with these principles:

- plan and manage for great results;
- be fair to all suppliers;
- get the right supplier;
- get the best deal for everyone; and
- play by the rules.

Rule 6 sets out that all public service departments, New Zealand Police, New Zealand Defence Force, and State Services agencies covered by the Whole of Government Direction, must apply the Rules.[117] Agencies acquiring certain public health, education and welfare services, which include many social services covered by this inquiry, can opt out of applying 16 of the rules. However, Rule 13 (2) specifies that even if an agency opts out, it is still expected to conduct its procurement according to the procurement principles and other procurement good practice guidance (MBIE, 2015b). And Rule 13 (4 and 5) specifies that some of the rules apply to all opt-out procurements while others apply where relevant.

Guidelines

Contracting

Two core documents are the Treasury's *Guidelines for Contracting with non-government organisations for services sought by the Crown* (New Zealand Treasury, 2009) and the Office of the Auditor-General (OAG)'s *Principles to underpin management by public entities of funding non-government organisations* (OAG, 2006). Both were published before the Government Rules of Sourcing and have not been reviewed since the rules were issued.

The Treasury Guidelines, first issued in 2001 and revised in 2009, are intended to encourage better contracting practices, consistent with the Treasury's "responsibility to ensure that all government departments and Crown entities are aware of, and take into account, best practice principles in the management of public resources" (OAG, 2006, pp. 7–8). A recent review by the Treasury considered that its Guidelines have weaknesses (section 12.4).

Both the Treasury and OAG Guidelines set out principles that should guide contracts. Together with the Government Rules of Sourcing, agencies must have regard for three sets of principles. These sets overlap but are not identical.

Some other government agencies also set out guidance, policies or procedures. The OAG noted that this guidance "usually" aims to be consistent with the Treasury and OAG guidance, and that MSD and the Ministry of Health (MoH) adopt this approach (OAG, 2006).

F12.1 The framework within which contracting for social services takes place consists of three important documents: the Government Rules of Sourcing and the Treasury and Office of the Auditor-General guidelines. These documents were developed at different times and are not consistent. This creates confusion for social services agencies.

Funding

The Department of Internal Affairs (DIA) has published a voluntary Code of Funding Practice (DIA, 2010), which aims to assist government and non-profit organisations when entering into government funding arrangements.[118] The Code sets out seven code areas: respect; cultural context; transparency; open communication; flexibility and innovation; integrity; and accountability. It provides criteria for each code area and recommends performance indicators.

According to the DIA, the Code

> does not duplicate the advice provided by the Treasury or the Office of the Auditor-General, but rather embodies a common understanding of, and mutual commitment to, specified principles and minimum standards that may be used by both government and non-profit organisations. (DIA, 2010, p. 7)

However, the Code does seem similar to the other guidelines.

Compliance with the Code is not monitored or reported. Indeed, the Commission is not aware of formal reporting against any of the identified contracting guidelines.

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[117] These agencies are listed at www.procurement.govt.nz.

[118] The Code is primarily aimed at the funding relationships between government agencies and the not-for-profit sector, although its general principles "may apply to a wider range of funding arrangements" (DIA, 2010, p. 7).

The streamlined contracting project

In March 2013 Cabinet directed MBIE to lead the "Streamlined Contracting with NGOs" 3-year project (2013–2016). The project aims to reduce inconsistency in, and duplication of, contract management practices across government agencies, and to reduce compliance costs for non-government organisations (NGOs). The project includes six government agencies (MSD, Health, Justice, Education, Corrections and Te Puni Kōkiri).

The project, undertaken in partnership with non-government providers, with oversight from the cross-agency Social Services Procurement Committee, has created a suite of contract, contract management and decision-making tools, collectively referred to as the *Contracting Framework* (Box 12.4)

Box 12.4 **The Contracting Framework**

The Contracting Framework provides documents and tools to be used when contracting between government agencies and non-government providers: the Government Agency Agreement, Framework Terms and Conditions (FTC), Outcome Agreement (OA) and the Outcome Agreement Management Plan.

The OA and FTC together document all the legal obligations between a government agency (that purchases services) and a provider. Neither legal document can be used without the other. The OA details:

- specific services being purchased;
- community or population outcomes the services contribute to;
- desired client outcomes;
- how performance will be measured;
- price;
- monitoring and reporting arrangements;
- contract duration;
- conditions either party must comply with; and
- any other engagement-specific details necessary.

Source: MBIE, 2015c.

MBIE considered that this project has created an outcomes-focused contracting framework, supports collaborative provider/purchaser relationships, and achieves efficiencies in contract management. Expected benefits include:

- standard terms and conditions for contracts to enable providers to focus on service delivery;
- tools and templates to support more consistent management of contracting arrangements;
- enhanced ability for providers to work collaboratively with and across multiple government agencies;
- reduced training and up-skilling requirements for people moving between government agencies and/or non-government providers;
- reduced requirements for legal advice;
- more data and information, including identification of opportunities for more collaborative contracting;
- less duplication of contract management activity, such as audit and monitoring;

- increased focus on identifying and measuring improvement in client outcomes through the use of Results Based Accountability (RBA); and
- streamlined reporting through shared performance measures across programmes. (MBIE, 2014)

MBIE is building agency capability in contracting for outcomes, with more than 700 training places taken up by agency staff by May 2015 (MBIE, pers. comm., 7 April 2015).

Agencies will continue to transfer providers to the new outcome agreement template. Forecasts indicate that government agencies would enter into about 900 contracts using the Contracting Framework by 1 July 2015, with about 1 240 more contracts planned for transition in 2015/16. These contracts make up approximately 60% by number of government agency contracts with non-government providers . The intent is that all contracts with non-government providers will be migrated to the Contracting Framework when their current contracts expire, renew or are replaced with new services (MBIE, pers. comm., 7 April 2015).

The Social Services Procurement Committee has a wider programme of streamlined work, including harmonising audit, approval and accreditation standards and practices.[119] MSD's information technology system for approvals is being developed as the initial technology platform for coordinating audits across agencies, providers and programmes.

Investing in Services for Outcomes

The project Investing in Services for Outcomes, led by MSD between 2012 and 2014, was intended to improve contracting practice and re-focus purchasing towards outcomes aligned with government priorities (New Zealand Treasury, 2013). The project included:

- developing a purchasing strategy (published as the Community Investment Strategy in June 2015);
- streamlining MSD's contracting and monitoring processes;
- offering providers with multiple contracts a single MSD contract with a single MSD lead relationship manager; and
- developing a single MSD approvals framework for all service providers.[120]

The project includes transferring MSD's provider contracts onto the MBIE Streamlined Contract for NGOs framework as their contracts expire. MSD has transitioned 747 providers, with 570 more to be transitioned in 2015/16. Most remaining providers will be transitioned by the end of 2017/18. MSD is also leading the cross-agency contract accreditation process, to join up the processes for assessing providers' capability and capacity to deliver social services. The objective is to work towards one way of accrediting a provider across government, against a common set of standards. As a first step, social sector agencies have jointly developed a number of shared standards (MSD, n.d.). MSD will continue to work with MBIE and other government agencies to achieve further gains in reducing duplication and compliance costs (MSD, sub. DR224, p. 20).

These initiatives indicate the considerable effort under way to make contracts more outcome-focused. The combined use of different measures – including outcomes – is a feature of MSD's RBA framework (Box 12.5). In addition to the RBA framework, as part of its Community Investment Strategy, MSD is conducting trials with providers to develop an outcomes framework and performance measures. The trials cover some services in: social workers in schools; budget services; Family Start; functional family therapy; integrated health and social services for at-risk under five year olds and their families; and intensive wrap-around family social work (MSD, 2014c). The purpose is to develop standard methods and models for definitions and measurements, and methods of data collection and management.

[119] Formerly the Social Sector Purchasing Steering Group

[120] When MSD merged the Child, Youth and Family and the Family and Community Services contracting teams and established the Community Investment group within MSD, the Investing in Services for Outcomes project was transitioned to the new group.

Box 12.5 **Results Based Accountability**

RBA involves two types of accountability (population and performance) and three types of performance measures (how much did we do? / how well did we do it? / is anyone better off?). It employs a variety of means, such as customised meeting agendas, team performance development and reviews, and strives to follow the overarching goal of 'always doing better than our own history'. This system of performance measurement has been in place in social service contexts in New Zealand as well as internationally, and has been successful in organisations of varying size, from large government agencies to small community groups and recreational programmes. (Dunedin Community Law Centre, sub. 48, pp. 6–7)

Implications

Government has significant initiatives to improve contracting, with Government Rules of Sourcing issued in 2013 and updated twice since, and MBIE and MSD leading projects intended to focus contracts on outcomes; to streamline contracting processes; and to encourage collaboration between providers.

The joint Treasury and State Services Commission submission on the draft report argued that the Streamlining Contracting project provides the basis for further improvements in contracting (sub. DR226). The various regulation and guideline documents seem to have been left behind by these developments, and are likely to be confusing for social agencies negotiating contracts. They need updating and consolidating (section 12.5).

In 2013, the Treasury argued that many initiatives "talk about a focus on outcomes, but very few seem to be moving towards contracting for outcomes, or performance-linked funding" (New Zealand Treasury, 2013, p. 5). A likely reason for slow progress towards contracting for outcomes is that contracting out is a poor match to situations requiring integrated responses and packages tailored to specific clients (ie, quadrants C and D) (Chapter 6). This is discussed further in section 12.5.

12.4 Issues raised by participants

Submissions, most from NFP providers of social services, covered many aspects of contract design and management.

Some providers oppose contracting; for example, because they consider competition for contracts discourages trust and collaboration between NFPs, or undermines their independence and advocacy role.[121] However, most focused on four issues:

- the tendering process;
- contract design;
- contract administration, including the burden of reporting; and
- impacts of contracting.

Overwhelmingly, submitters see a need to improve contracting, implying that the initiatives described in section 12.3 have not (as yet) achieved the Government's objectives.

The tendering process

Tendering can improve efficiency but needs to be carefully designed. Submitters focused on problems with the administration and frequency of tenders (and therefore the transaction costs visible to them).

[121] Submitters with one or both of these views include the Methodist Mission (sub. 4), Restorative Justice Aotearoa (sub. 28), Barnardos (sub. 12), Disability Support Network (sub. 47), Dunedin Community Law Centre (sub. 48), New Zealand Public Service Association (sub. 108), Relationships Aotearoa (sub. 56), Tauranga Budget Advisory Service (sub. 57) and Waves Trust and Community Waitakere (sub. 83).

Information and timeliness

Healthcare of New Zealand Holdings (HCNZH) considered that the quality, accessibility and usefulness of information provided by funders during contestable processes is variable, inadequately prepared and can increase the time and effort required to respond to a Request for Proposal (RFP). It has also observed a secretive approach to answering questions during the procurement process (sub. 51). The Salvation Army pointed to "baffling" tendering decisions, and indicated that it had very little confidence in a tendering process it was involved in (sub. 104). Whakaata Tohu Mirror Services noted:

> Crown entities are very limited in their contracting skills, generally manage small budgets and don't seem to have the infrastructure in place for contracting. Reporting processes are rushed and there is no auditing process in place. These contracts seem to be administered on a who-knows-who basis. (sub. 23, p. 3)

Some providers commented that agencies do not adhere to their own timetables in tender processes. So a provider might not know until after contract expiry whether the contract was to be renewed, making it difficult to keep on staff. Spectrum Care Trust Board criticised this and other aspects of a tender it was involved in, suggesting that "the timelines, rules, communication undertakings and RFP protocols are sometimes severely compromised.… with many providers believing the decision was 'fait accompli' from the beginning of the process". (sub. 90, p. 2)

Other submissions acknowledged recent attempts to improve tendering processes, such as MBIE's Contracting Framework. However, Te Rūnaka o Ōtākou observed that, in the health area,

> Government's recent streamlined contracting initiative and commitment to reduce the audit burden are welcome moves, but so far they have only impacted on a very small number of providers. As long as DHBs and other government agencies are not part of the streamlined approach, the burden of compliance will not reduce significantly for non-profit health providers. (sub. 110, p. 10)

Short-term contracts

A common view is that tenders are too frequent, and that short-term contract periods increase costs and reduce service integration, innovation, investment, and the ability of providers to retain staff and premises.

The Wise Group noted that

> [M]ost contracts tendered are short-term, never greater than three years and for many now one year agreements; this despite their definition being for essential services. This is certainly the case in specialist mental health and addiction services where in one DHB area all of the group's contracts are for one year. Longer term agreements, five years minimum, would reduce the cost of contestability.
>
> A similar example is year on year contracts which are continuously re-issued. For example, in one DHB area we have had 12 one year contracts over 12 years! (sub. 41, p. 23)

The Wise Group considered that the cost to the Crown, to the Group and to other tenderers is difficult to justify, particularly given that contracts are often re-issued, and that contestable processes have been used to bring about changes to services that could have been given effect at lower cost through negotiation and contract variation.

The Southland Interagency Forum worries that frequent changes to tendering rules increase cost, pointing to

> protracted and resource draining contract negotiations, onerous audit requirements for all (even if the contract value is less than $10 000), continual threat of either tendering contracts on the open market, or changing the rules and accepting of tenders that don't meet original "Request for Proposal" criteria, all of which have come about in the last two years. (sub. 29, p. 1)

Other participants considered that as well as imposing excessive costs on bidders, frequent tenders discourage partnerships between providers, which take time to develop.

Supporting Families in Mental Illness (sub. 49) and Restorative Justice Aotearoa (sub. 28) noted that short-term contracts create uncertainty and stifle innovation. Care NZ pointed out that "year to year contracts make planning difficult" (sub. 99, p. 5), while the Auckland Council of Social Services considered that short-term contracts reduce the incentives for providers to share good practice, reward staff and advocate policy

or practice changes (sub. 55). Community Networks Aotearoa (CNA) observed that short-term contracts make it difficult to retain staff or premises (sub. 31). With many 3-year contracts tied to an electoral cycle, "after every election, new ideology can change everything that an organisation has been requested to do" (p. 8).

Impact on providers of different sizes

Some submitters argued that the tendering process discriminates against small providers (Box 12.6).

Box 12.6 **The tendering process and small providers**

CNA argued that the system of tendering online for social services "is not a level playing field. Local NFPs cannot compete with large organisations who have resources to employ contract lawyers" (sub. 31, p. 8). The Community Care Trust considered that the process favours larger providers who can employ professionals to write tender documents (sub. 96).

Inclusive NZ argued:

> Smaller community organisations … have less resource and capacity and are at a disadvantage when competing with larger and for-profit providers who have experience and funds to invest in tender bids. Tender processes that are awarded on the strength of a tender document and do not take into account an organisation's relationship with its community also place these organisations at a disadvantage. (sub. 32, p. 8)

The New Zealand Red Cross noted:

> All parties contesting a contract are generally required to complete all steps in the tendering process. This represents a significant duplication of effort particularly for smaller organisations. A simple staged process to shortlist contenders may enable interested parties to provide a high level expression of interest, and be selected to progress to detailed design on a needs basis only. (sub. 94, p. 4)

Presbyterian Support New Zealand observed that the "cost and complexity" of the tender process "will concentrate the sector and potentially exclude niche providers" (sub. 76, p. 14).

Should tenders be used to shape markets?

Submitters had differing views about whether the Government should use tenders to shape the market within which providers operate; for example, by encouraging a shift towards larger or more specialised providers (Box 12.7).

Box 12.7 **Should tenders be used to shape markets?**

Some submitters argued that the Government should use contracting to encourage larger or more specialised providers:

> Attempting to introduce competition among service providers where there is not sufficient capacity or capability tends to damage the limited capacity or capability that is available, with a corresponding decrease and disruption to the quantity or quality of the services available. There are real examples where this has happened in the last few years. (Carers New Zealand, sub. 71, p. 7)

> [F]or target populations which have complex and hard to treat conditions the country should invest in a small number of providers which can scale up evidence-based interventions, implemented with high model fidelity, and with the capacity to build ongoing data collection and quality improvement systems. We recommend that government agencies make a strategic decision to take a targeted investment approach … [to] facilitate strong organisations delivering interventions which yield strong investment returns via reduced costs of crime and other social harms to the state and private sectors. (Youth Horizons, sub. 67, p. 14)

Anglican Advocacy accepted that contracts with larger organisations may sometimes improve efficiency, but argued that reducing the diversity of suppliers could reduce resilience and the value to a community beyond contracted outcomes, which might come through facilities being used at other times, volunteer hours, and greater flexibility for innovation (sub. DR180).

Contract design

Participants commented on the attractions and challenges of contracting for outcomes and on the disadvantages of overly prescriptive contracts.

Contracting for outcomes

Contracting for outcomes, involving payments to providers contingent on achieving specific outcomes, has supporters and critics.

MSD suggested that moving towards an outcome focus has both community and provider support:

> The providers and communities that MSD works with have also advised that they want to see a stronger link between government priorities and the services we purchase. They want to see contracting of services move away from a focus on purchasing outputs. They want MSD to be clear on the outcomes sought and how their performance will be measured in meeting the outcomes. They see that this will give them the flexibility to respond in innovative ways about how they achieve those outcomes. (sub. DR224, p. 13)

A number of participants argued that contracting for outcomes focuses activity on what matters, helps innovation, encourages flexibility, allows for culturally specific responses, and facilitates relational contracts:

> Outcomes are more important than processes and inputs. Contracts need to be refocused on how people's choices have improved their lives and the lives of those around them, and how the supports and services have contributed to these outcomes. (Manawanui, sub. 8, p. 2)

> Outcomes are the only truly reliable measures that matter for clients, and in establishing return on investment, and value to the wider population. (Blind Foundation, sub. 16, p. 29)

The Wise Group considered that while defining outcomes is challenging, activity-based contracts focus attention on less important activities, by creating "unhealthy pressure to focus on the immediate service delivery via contact hours at the expense of workforce development, community development, quality improvement and a focus on outcomes which demonstrate a higher value than being busy" (sub. 41, p. 18).

Footsteps (sub. 42), the Methodist Mission (sub. 4) and HCNZH (sub. 51) suggested that measuring outcomes helps innovation and flexible service delivery. Max Solutions (sub. DR200, p. 30) considered that "contracting for outcomes provides a suitable risk-sharing environment". Te Rūnaka o Ōtākou observed:

> Contracts that co-design outcomes rather than specified outputs allow for a much more culturally specific response to human need. Narrowly defined outputs produce a silo that [captures] human experience inhumanely, as data and diminishes their status as citizens. A broad focus on outcomes, value added and strong communities requires contracts that reflect these complexities. I am struggling here to find an example of one. (sub. 110, p. 6)

Alzheimers New Zealand considered that measuring outcomes facilitates the development of relational contracts:

> High trust contracts rely on a sense of mutual value in the relationship and high levels of professional judgement, supported by strong outcome measures and reporting. The current purchasing model for services for people living with dementia is based on low cost and easy to count/capture aspects.
>
> A shift to relational contracting would require significant investment in the development of outcome measures to be used across service providers and in relation to different health or social matters, together with the professional capability required to develop and manage the necessary relationships. (sub. 27, p. 4)

The Department of Corrections provided an example of a trial involving a contract in which part of the payment to providers is based on measured outcomes. The trial's initial success has led to the programme being extended to more difficult cases (Box 12.8).

Other examples of contracts involving incentive payments include: MSD's Youth Services (Chapter 3), its Mental Health Employment Service (MHES) and Sole Parent Employment Service (SPES) (sub. DR224), and Whānau Ora (Appendix C).

Box 12.8 **Department of Corrections' Out of Gate programme**

Out of Gate is designed to improve the prospects for successful re-integration of prisoners, who have served prison sentences of less than two years, into the community:

> The five service providers, selected as a result of a contestable process, make contact with referred prisoners before they leave prison. When they are released from prison, providers help them find accommodation, prepare for employment, meet health and wellbeing needs and benefit from life skills training. The providers are paid 85% of their fee for these services (inputs). The remaining 15% of the service fee is dependent on them achieving reduced re-offending outcomes.
>
> The contract specifies the outcomes and some outputs, but otherwise leaves the providers free to apply their expertise and experience to achieve the outcome and so maximise their fee income.
>
> To enable providers to compare their performance, all data for each provider on referrals, offender status and the achievement of participants is shared with all providers. This helps drive performance and enables the Department to evaluate provider performance on an ongoing basis. The data is collated and published monthly.
>
> Governance meetings of all five providers with representatives of the Department are held quarterly. These meetings provide an opportunity for collaboration and the exchange of ideas among the providers. They also provide an opportunity for providers and the Department to talk about any weaknesses in the delivery model and the incentive structure, and to suggest improvements. This forum could be used to review whether the required outputs are essential to achieving the desired outcome, and if not, whether they should cease to be compulsory and/or be replaced by another output that might have more impact on outcomes.
>
> The success of the original programme has led to it being extended to a more demanding subset of short-serving prisoners. The real-time evaluation of the service has enabled the Department to expand the programme more rapidly than would have been possible if the expansion had been reliant on a post-trial evaluation.
>
> The provider contracts are for an initial term of two years. Over the longer term, it may be desirable to have longer-term contracts to avoid the inevitable loss of provider focus towards the end of contract, as staff become anxious about the continuity of their employment. (Department of Corrections, sub. 21, pp. 1-2)

Supporting Families in Mental Illness pointed out that contracting for outcomes is new for many organisations (sub. 49, pp. 12–13). The Platform Charitable Trust suggested that moving to contracting for outcomes would require time and cultural change, as well as extra resources:

> [S]ome existing contract reporting requirements may no longer be necessary or useful in an outcomes based contract, in which case organisations will need to be given time to transition their staff and their IT systems to accommodate a new way of reporting.
>
> Such a significant shift in approach will also require a significant shift in mind-set. The establishment of an outcome-focused health and social sector will rely on major culture change at multiple levels in all parts of the sector. The government will need to be prepared to invest in a significant change management process that includes training and support for those community providers that have not had the benefit of being involved in the implementation of Results based Accountability (RBA) agreements funded by the Ministry of Social Development. (sub. 45, pp. 9-10)

Some participants, however, considered that contracting for outcomes is not practicable, for a number of reasons.

Auckland Council of Social Services (sub. 55), Presbyterian Support New Zealand (sub. 76) argued that only some services have measurable outcomes. According to the Salvation Army

> [T]he idea that social outcomes and social wellbeing can be measured by simple numbers is illusory. While simple numbers are good for rewarding commercially driven service providers and their investors, these numbers are easily manipulated and the social outcomes being sought through the provision of social services remain elusive. (sub. DR214, p. 8)

The Health and Disability Network noted the differences and challenges of defining outcomes in the health and social services sector (compared to say engineering or manufacturing), and that a "one-size-fits-all" approach should not be imposed on all providers (sub. 70, p. 4).

The Association of Salaried Medical Specialists argued that if outcomes are not measurable, linking them to funding "carries a high risk of unintended consequences where there is inadequate public accountability" (sub. DR155, p. 8).

Others (eg, Jane Lee, sub. 60; New Zealand Education Institute, sub. 40) considered that some outcomes are only observable in the long term, beyond the duration of normal contracts.

Often it is difficult for outcomes to be attributed to a particular service. The Auckland Council of Social Services observed that "[f]or building community resilience a great many services come together each with varying but unmeasurable effectiveness so the proportionate role of each input which led to the outcome usually can't be determined" (sub. 55, p. 4). This can be particularly problematic when a number of agencies work together (Superu, sub. 82). The Blind Foundation saw several risks to their organisation, although it is not opposed to outcome contracting:

> [The Foundation] is able to work with outcome directed contracts. However the outcomes are not to the stage where the Blind Foundation would be prepared to take on financial risk. Outcomes have to be able to be reported within the time frame of the contract and to be properly attributable to the Blind Foundation's interventions and not to external uncontrolled events. These are quite high barriers. (sub. DR209, p. 11)

Some participants (eg, Jane Lee, sub. 60; Sue Johnson, sub. 3; NZCTU, sub. 103; IHC, sub. DR218) suggested that contracting for outcomes can create opportunities for providers to divert resources from the most difficult (and costly) cases:

> We understand that other commercial private training establishments are ensuring their survival by only taking clients onto their programmes who are very likely to succeed. We submit that many of this type of client would succeed without government funded interventions. The Salvation Army will not leave clients behind and we will continue to take the neediest clients despite the pejorative impact these clients have on our outcomes/success statistics. (Salvation Army, sub. 104, pp. 5–6)

Carers New Zealand noted that contracting for outcomes can

> shift the risk for performance on to the service provider, when the result or outcome will probably be beyond their control. It is also inconsistent with the objective of NGOs and government agencies being in a partnership or collaborative relationship if the responsibility and risk associated with the desired outcomes is shifted on to the service provider. (sub. 71, p. 5)

Max Solutions considered that while outcome-based contracts can contain metrics that show whether outcomes are being achieved, they rarely look at the underpinning inhibitors of more successful delivery, some of which may relate to government policy levers (sub. DR200).

The South Waikato Social Services Group considered inadequate consultation had taken place (sub. DR185). Hui E! considered that other problems with tendering and contracting need to be resolved first (sub. DR213).

The extent of prescription in contracts

Submissions provided many examples of prescriptive contracts, and voiced concerns that they restrict the ability of providers to meet their clients' needs and to innovate (Chapters 2 and 4).

Reporting and auditing requirements

The burden of reporting and auditing obligations, particularly against prescriptive contracting requirements, drew much comment from submitters.

The Wise Group submitted a report by PricewaterhouseCoopers (PwC) that

> evidences significant duplication [in reporting and audit requirements] that comes at an avoidable cost to the Crown and the group as a provider. Importantly the report also identifies the ease with which an integrated audit could be developed and adopted, creating significant savings in both time and money. (sub. 41, p. 35)

The Southland Interagency Forum referred to "punitive and overtly dictatorial reporting requirements" (sub. 29, p. 1), while the National Council of Women of New Zealand observed that

> too much time was wasted filling in forms while the real, often urgent work of a service had to wait. Some members reported instances of rushed or skewed reporting by agencies to secure the next round of funding. (sub. 20, p. 2)

One cause of complaint was the large number of reports required, sometimes to different parts of the same agency and sometimes to different agencies. Whakaata Tohu Tohu/Mirror Services

> report to MSD, [Southern District Health Board (SDHB)] & MOH which each have different timeframes and requirements. The MOH & SDHB contracts do not have templates for narrative reporting making it very difficult to provide the required information. Our organisation now uses many more resources than before to complete the required reporting. (sub. 23, p. 3)

Barnardos and the Laura Ferguson Trust had a similar concern:

> A key problem at the moment is the wide variety of outcomes, results, goals and measures that are used by different agencies – both government and non-government. Identifying outcomes that are valid and meaningful, measuring them and learning from them is hugely resource intensive. (sub. 12, pp. 7–8)
>
> Like many social service agencies we hold multiple service delivery contracts administered by a range of Crown-funded agencies. Inevitably there is a compliance burden associated with each contract. In practice this is far more onerous when the contract is in place as reporting expectations (even timeframes) and audit requirements do not align, even in cases where the service delivered is very similar and the need for multiple contracts is because of the demographic of the client receiving the service. (sub. 10, p. 1)

Hokianga Health Enterprise Trust

> holds over 80 Government contracts, each on the whole defining a narrow, mostly inflexible range of service outputs and often detailed but inconsistent, reporting requirements. The level of reporting across these contracts is varied and relatively arbitrary and [does] not appear to reflect the relative public sector performance risks. …
>
> Feedback on reports is also very arbitrary with some detailed and regular responses and concerns expressed by the funders for small contracts and in contrast, entirely absent feedback for larger and riskier contracts for over twenty years. …There is also an increasing trend to introduce more outcome based reporting within these contracts, but instead of reducing output reporting, they add another layer of expectation and compliance upon the provider.
>
> The organisational cost of compliance of meeting the reporting and auditing requirements is proportionally extremely high for our relatively small organisation and unbalanced with the level of performance risk. It would be somewhat more efficient if the external reporting and quality compliances aligned with the Trust's own internal need for management reporting and quality assurance, but unfortunately they are often entirely unaligned. (sub. 44, pp. 1–2)

Homebuilders Family Services considered that outcome measures need to be localised, and that care needs to be taken to avoid the burden from additional reporting:

> Successful evaluation recognises differences between people, places and programmes. The requirement of differentiation raises doubts over the efficacy of a single common outcome framework such as RBA promoted by the current government. Outcome goals and measures should be developed and established where the delivery takes place. It should be based on effectiveness of service delivery or a determinant of programme shortcomings as the basis for improvements and not just as a reporting tool. Reporting with this framework can create considerable work for the provider without the benefit of activating any real learning and improvements in service delivery. (sub. 38, p. 2)

Impacts of contracts

Participants commented on the impacts of contracts on quality, innovation, and on rural and remote communities.

Impact on quality

Contestable processes can improve quality if this is valued by the tenderer and rewarded through contract payments. However, contracts can reduce quality if selecting providers on the basis of the cheapest bid encourages under-bidding (Southland Interagency Forum, sub. 29). However, Hui E! argued that "the problem for NGO providers is generally the reverse – that the procurer (being driven by a capped budget) cares less about quality than the provider, especially in terms of the longer-term outcomes for clients and communities" (sub. DR213, p. 12). The Disability Support Network had a similar view:

> [T]he separation from the funder and provider that is a hallmark of the contemporary era of deinstitutionalisation has enabled government to distance itself from the adverse effects of its underfunding, including any concerns about quality standards, as well as the poor wages and conditions of workers. (sub. 47, p. 7)

Impact on innovation

Many participants considered that prescriptive contracts stifle innovation (Chapter 7). MSD recognised that "at risk clauses and tight service specifications can enhance accountability but there is a risk that they could stifle innovation by limiting the ability of providers to tailor services to clients" (sub. 72, p. 5). However, the Health and Disability Network (sub. 70) and HCNZH (sub. 51) argued that the Government does not consider the scope for innovation or value experimentation when drafting contracts. And Wesley Community Action commented that the Family Start programme is aimed to engage those whānau most at risk of poor outcomes, but does not allow flexibility in the manner or number of visits by a whānau worker. This leads to "a one size fits all approach which is risk adverse and thereby [restricts] innovative opportunities" (sub. 6, p. 2).

Impacts on rural and remote communities

The ACC (sub. 30) uses contracting to ensure that clients in smaller centres and rural areas have a choice of providers. Its vocational rehabilitation contract requires providers to deliver services throughout one or more defined geographical areas, defined so as to ensure that a choice of service provider is available to all New Zealanders. For example, Northland is included within the same area as Auckland, which means that providers who apply to deliver services in Auckland must also do so in Northland.

Yet some providers are less positive. The National Council of Women's Organisations suggested that when a few larger organisations are contracted nationally they may "cherry-pick contracts", leaving the remaining areas to subcontractors who are poorly resourced and reviewed (sub. 20, p. 3). Both they and Barnardos (sub. 12) called for additional funding to meet the higher costs of servicing smaller communities.

Implications

Providers were dissatisfied about the compliance burden of contracts. Some suggested that contracts impede desired outcomes. Submissions from government agencies offered a more favourable impression about how well contracting is working – but acknowledged there was scope for improvement.

Much dissatisfaction with contracts is due to contracts being used where another service model would be better (Chapter 6). However, opportunities clearly exist to improve contract design and administration. The next section sets out recommendations that could generate considerable benefits, given the large number of contracts and the identified weaknesses in current processes.

12.5 Opportunities for improvement

Procurement: Government Rules of Sourcing

The Health and Disability Network considered that government purchasing processes would be "vastly improved if government agencies adhered to the three core funding guidance documents [that is, the Treasury and Office of Auditor-General and Government Rules of Sourcing] that already exist" (sub. 70,

p. 10). Platform Charitable Trust suggested that the Government should develop one set of agreed rules for how all government and Crown agencies must engage with, contract with and fund NGOs, and that the three framework documents should become the rules, rather than guidelines, for engaging with the sector (sub. 45).

The Government Rules of Sourcing already provide a set of rules that apply to all government sourcing, with partial "opt-outs" for some social services (section 12.3). These opt-outs make the rules difficult to read.

This problem would be addressed by developing separate rules of sourcing for social services that specify the rules that agencies have to comply with, rather than specifying a full set of rules from which they have to deduce the rules that do not apply. In the process of preparing this document, MBIE should consider whether the characteristics of NFPs or the social services within which they operate require that additional rules are needed or existing rules must be amended. The rest of this section sets out possible additional rules.

R12.1 To improve clarity, the Government should publish separate Rules of Sourcing for Social Services. These rules should make it explicit that contracting out is just one of a number of models available for the purposes of commissioning social services, although contracts may be used with other models as well.

Guidelines

As the Treasury points out, guidelines are not a manual on how to write contracts and "do not diminish the need for Government agencies to exercise informed judgement about the arrangement that may be appropriate in their own circumstances" (New Zealand Treasury, 2009, p. 2). Even so, it is not helpful that the Treasury's guidance material and that of the OAG were prepared independently of the Government Rules of Sourcing.

Further, a Treasury paper recently acknowldeged that the Treasury guidelines are "simplistic" in some regards, do not provide advice on how to approach risk sharing and do not adequately address contracting for outcomes (New Zealand Treasury, 2013). Bringing this guidance up to date provides an opportunity to rationalise it with the other government guidance material, and with the Government Rules of Sourcing.

MBIE agreed that it would be helpful to "review the current requirements and guidance with a view to developing a simple coherent set which sets minimum and good practice expectations" (sub. DR153, p. 2). It pointed out that this could build on work that it and other organisations have already done.[122] The Treasury and State Services Commission also agreed that updated guidelines are needed and pointed out that MBIE has "done much of this work" (sub. DR226, p. 24). The Public Service Association considered that new guidelines should be developed in consultation with NGOs, unions and providers (sub. DR221). The South Waikato Social Services Group submitted:

> [T]he process for implementing guidelines needs to be robust, transparent, auditable, rigidly fair and equitable and universally applied. Without these assurances it is just more bureaucracy. (sub. DR185, p. 6)

Updated guidelines would support the Government Rules of Sourcing.

R12.2 The Government should develop a single set of up-to-date guidelines to support the recommended Rules of Sourcing for Social Services and should provide training on these guidelines to social services agencies and providers.

[122] For example, MBIE has developed procurement guides, tools and templates. These are available at www.procurement.govt.nz. It is also proposing an introductory procurement course called *Demystifying Procurement* (sub. DR153, p. 3).

Improving the tendering process

Submitters highlighted several areas that need improvement, including: information provision during the tendering process; agency timeliness; taking account of past experience when selecting providers; standardisation; and excessive frequency of tenders (contracts are too short).

Information provision

Some providers complain that tendering agencies are unwilling to provide additional information after inviting a tender. However, those managing the tender have to manage the tension between not giving information to a single bidder that would give it an unfair advantage, and withholding advice that would improve the quality of the bids. Ways to manage this tension include:

- ensuring that RFPs are informative;
- holding briefing sessions for all bidders; and
- requiring bidders to commit questions about the tender in writing, with the answers circulated to all bidders.

The Rules of Sourcing address these issues in the following way.

- Rule 35.1 requires that Each Notice of Procurement must contain all of the information that suppliers need to prepare and submit meaningful responses, and sets out the information required.
- Rule 38 specifies that an agency may make additional information available to all participating suppliers, but must make additional information available to all participating suppliers at the same time.

However, these rules do not apply to opt out procurements (section 12.3), which include important social services procurements.

R12.3 The recommended Rules of Sourcing for Social Services (and their supporting guidelines) should make it clear that relevant information should be provided to all participating suppliers in tender processes.

Agency timeliness

Agencies need to allow sufficient time for tenderers to develop adequate bids and for agencies to assess them. The time required is likely to vary between tenders. Rule 26 requires that agencies allow suppliers sufficient time to respond to a notice of procurement. Rule 37 requires agencies to respond promptly to questions, and suggests that agencies consider extending their deadlines if they are not able to answer questions promptly.

Good procurement practice means that agencies need to plan effectively and keep to their timetables, so as to maintain service delivery. Yet this does not always happen, as the Commission heard that agencies do not always comply with their own tendering timetables. This causes significant problems for providers (section 12.4). Clearly, the tendering process needs to start early enough for it to be concluded well before existing contracts expire. Options that would strengthen agencies incentives to run timely tender processes include:

- adding a rule that agencies must comply with their specified deadlines;
- imposing penalties on agencies that miss deadlines;
- transparent tracking and reporting of tender processes; and
- more frequent OAG audits of contracting processes.

Penalising agencies for not meeting timelines would require establishing a process and authority for determining that a penalty is payable, and perhaps an appeal process. Funding would need to be considered: if penalties could be paid out of the appropriation for the delayed programme, their burden

would fall on service providers and their clients rather than on the agency. Further, agencies might simply set up longer initial timelines to avoid the risk of being penalised.

Better reporting could occur along a spectrum, from an annual report through to sophisticated real-time tracking and reporting systems. Any approach would need to take into account that providers may cause some delays.

The evidence does not so far indicate that the problem justifies the cost of installing a penalty system or sophisticated tracking systems.

R12.4 Social services agencies should report annually on their compliance with the timelines and deadlines set out in tendering documentation.

Failure to take account of past performance when selecting providers

Some providers told the Commission that tendering agencies do not take into account a provider's past performance when assessing bids. For example, Community Network Aotearoa considered:

> The system of tendering on-line for social services is deeply flawed. Although a representative of CNA was assured by MBIE staff that 'blind' committees (where the history and identifying features of the RFP writer are kept secret) are against best practice, it is widely known in the Sector that these committees exist. (sub. 31, p. 6)

> [CNA] has a major problem with the contracting via GETS system. … NGOs we are aware of have been awarded contracts via a 'blind' system. For efficient services and good results, Government must take into account the added value that NGOs provide over and above for-profit services. NGOs often cannot compete with For Profits who have resources and abilities to hire contract lawyers. If the decision makers do not take into account the history, the community connectedness and the success of NGOs and look only at a value for money proposition, they risk making huge costly mistakes. (sub. DR236, p. 14)

While past performance is not necessarily a guide to future performance, it is difficult to understand why it would not be considered. Looking at past performance might also reveal a provider's broader connections within the community (Home and Community Health Association, sub. DR192), which may influence its effectiveness. The Treasury considered that, after price,

> performance information is the next best source of information to make judgements about what services to purchase from whom to get the best outcomes most efficiently. … However, from the providers we spoke with it seems that past performance information is not commonly asked for by government when applying for a new tender. (New Zealand Treasury, 2013, p. 13)

Further, if providers know that their past performance will not be considered in future tender rounds, this removes a significant incentive to perform well.

One reason for not using past performance information could be to encourage new providers into the market. There may also be concerns that panel members may make biased decisions if they rely on their knowledge of a bidder's past performance. These concerns could be reduced by measures – some already in use – such as requiring panel members to declare conflicts of interest; having a mixture of panel members with and without knowledge of the bidders; and publishing the reasons for decisions.

The Commission considers that each bidder's past performance should be factored into tendering decisions, unless agencies have a good reason for not doing so. Agencies that decide not to take past performance into account should publish at the start of the tendering process why they are doing this, and why the advantages of this approach outweigh any disadvantages.

R12.5 The recommended Rules of Sourcing for Social Services should incorporate a requirement for agencies to take account of the past performance of bidders when assessing bids. The requirement should enable agencies to ignore past performance only under exceptional circumstances and if they publish their reasons at the start of the tendering process.

Standardising tender requirements

Several participants suggested that standardising tender requirements would reduce tendering costs by standardising information requirements and reporting, and making more use of IT (Box 12.9).

Box 12.9 **Standardised tender requirements**

Barnardos suggested:

> It would be very useful if all RFPs from government agencies use a standardised template (questions and lay-out) and submission process. Slight variations in the way questions are asked, the order of questions and the processes for submitting information lead to significant amounts of time and effort without any real benefit in the quality of information provided. (sub. 20, p. 12)

According to the Wise Group,

> there is little or no adoption of technology that would streamline procurement processes", and there should be "a standardised, secure, online proposal site that respondents populated. In the absence of this most government agencies operate paper based systems". (sub. 41, p. 23)

The Blind Foundation, while acknowledging some improvements, noted that

> different departments require different information creating redundancies and inefficiencies. Integrated contracting would be a big improvement on this. Ideally ACC, MSD and MoH would get together and create consistency of questions, quality measure and Outcome contracts based on RBA. (sub. 16, p. 30)

However, HCNZH considered that standardisation has disadvantages as well as advantages:

- [M]oving every NGO provider across all of government to a single set of "framework terms and conditions" risks paving over important differences in contracting arrangements and creating additional complexity.
- The streamlined contracting framework developed with MBIE has in our experience made it more difficult to have discussions with funders about mutually acceptable terms and conditions since funders now lack the discretion to make changes that are in our shared interest and that of our clients. (sub. 51, p. 4)

As described earlier, MBIE is two years into a 3-year project to streamline contract management. Standardising terms and conditions should also simplify tendering processes, although it will not necessarily address all of the concerns outlined above. There is also a Cross Government Accreditation Working Group, whose aims include reducing the compliance burden for providers by reducing the duplication of accreditation activity for agencies. It has recognised that the burden of compliance extends well beyond accreditation, with monitoring and reporting requiring "large amounts of provider resource" (sub. 132, p. 3). It suggests that these functions should be approached from the perspectives of providers rather than those of agencies.

The Commission agrees with MSD's view that "more work is needed to streamline contracting across government" (sub. 72, p. 4). Yet standardisation should not be mandatory, as this would rule out negotiation of case-specific arrangements that meet the shared interests of the parties. It could also have unintended side effects, such as encouraging additional use of schedules to contracts, containing prescriptive terms and conditions that are not included in the standard contract forms and leading to more, rather than less, variation between contracts.

Less frequent tenders through longer-term contracts

In 2014/15, 46% of MSD's contracts for social services had terms less than 2.5 years (Figure 2.9). Many providers considered that contracts are too short and tenders too frequent. The Tauranga Budget Advisory Service proposed that there be

> longer term contracts (at least three years like high trust) subject to annual monitoring. Too many good staff are lost especially to the state sector due to insecurity of work tenure, career progression and poor pay. (sub. 57, p. 2)

The Commission learnt during its meetings with some providers that they were limited to 12-month contracts with their major funder, but these were typically rolled over. The Treasury also noted that many short-term contracts roll over after 12 months. However, it pointed out that

> it is not clear what the shared benefit of 12 months contracts is other than risk control for the government agency. The question is whether this is an efficient and effective way of managing risk given the high costs it creates for those providing the service? To our knowledge no analysis of this has been attempted by any government agency. (New Zealand Treasury, 2013, p. 22)

The Wise Group considered that long-term relationships and contracts – with built-in flexibility to adapt to service environments that change over time – are a critical success factor for effective commissioning and contracting (sub. 41). Care NZ believes that longer-term contracts must be considered, especially if providers are performing well and can demonstrate effectiveness (sub. 99). The Care Trust Board welcomed that the MoH is contemplating moving away from standard three-year terms, to rolling three-year contracts. It considered that this would "provide some financial surety as a platform for strategy development and operational planning as well as investing in workforce development" (sub. DR182, pp. 1-2). Max Solutions (sub. DR200) pointed out that yearly reviews can identify poor performance without the need to re-bid a whole programme. Community Wellbeing North Canterbury Trust believed that multi-year contracts assist with service delivery and workforce continuity (sub. 112). The Treasury's discussions with providers suggested that short-term contracts are an important barrier to achieving better investment in outcomes (New Zealand Treasury, 2013).

Yet longer-term contracts are not necessarily better. The appropriate length depends on factors such as:

- the service to be delivered;
- the views and track record of the provider;
- the lifecycle of the relevant policy;
- the contracting capability of the government agency;
- negotiation costs; and
- value for money (New Zealand Treasury, 2009).

The life of the capital equipment used to provide the service, the staff training required, and the extent to which capital and training are specific to the service, should be considered. It is also likely, as the Wise Group suggested, that longer-term contracts could be developed when there is "high trust" (sub. 41, p. 3).

The brevity of many contract durations does not prove they are all too short. However, as noted earlier, agencies may be attracted to short-term contracts to reduce their risk exposure. Further, the tendency to introduce new programmes creates a reluctance to use long-term contracts, because agencies do not know what will be coming next. And because agencies are usually the only purchasers, with several providers to choose from, they can impose some of the costs of short-term contracts (such as additional staff turnover and training costs) on service providers and their clients. Longer-term contracts might emerge if bargaining strength was more evenly balanced.

Mandating a default contract period of, say, three years, with an obligation on agencies to publish reasons for choosing shorter periods, would lengthen contract periods. However, pushing contracts towards an arbitrary standard may not be efficient, even if contracts are too short (on average) at the moment.

Some other practices can reduce the pressure for short contracts. For example, the Australian Productivity Commission (APC) has suggested that risk management frameworks help to build understanding of the risks involved in providing services, and lead to a discussion about who is in the best position to bear those risks (Box 12.10). They also clarify the appropriate tools for managing risks, only one of which is contract duration,

and would lead agencies to identify the risks of short-term contracts. For instance, contracts that are not matched to the length of period required to achieve outcomes create a risk of non-delivery (APC, 2010). Because social agencies with more sophisticated risk management frameworks are likely to consider the range of ways in which they can manage risk, they should be less likely to default to short-term contracts as their main way to manage risk.

Contracting agencies that employ a risk-management framework can also adopt lighter-touch regulation for providers with good track records (Max Solutions, sub. DR200).

Box 12.10 **Features of a risk management framework**

A risk management framework should have:

- a clear process for identifying the risks involved in delivering the service;
- a common understanding of the nature and extent of those risks;
- clarity about who should bear those risks;
- agreed standards for assessing risk;
- clarity about requirements for providing information to the other party;
- clarity about the most appropriate tools for managing risks;
- agreed protocols for managing risks over the life of the contract; and
- clarity about what actions each party should take if a risk materialises.

Source: APC, 2010.

Agencies with risk management frameworks and mechanisms for handling under-performance are less likely to rely on short-term contracts to manage risk. Agencies should also take into account factors such as those outlined by the Treasury, as well as the incentives of providers to invest in staff capabilities and capital equipment that are relevant to supplying the contracted services, when determining contract duration.

R12.6 Government agencies should apply a standard duration of three years to social services contracts unless their risk analysis indicates that a shorter or longer duration is better suited to the purpose of the contract. If the agency chooses a different duration they should publish their reasons.

Contract design

This subsection considers the opportunities and challenges for improving contract design through contracting for outcomes; structuring payments to incentivise outcomes; reducing the burden of reporting; and managing contract transitions. It also considers when it is appropriate to use contracting for outcomes (as part of the contracting out model) and when an alternative might be a better path.

Contracting for outcomes

As recently as 2013, contracts in New Zealand tended not to be specified in terms of outcomes. Many were based on delivery of units and felt to the providers like "tick-box exercises" (New Zealand Treasury, 2013, pp. 8–9). And PwC recently observed that while service providers in New Zealand are motivated by what they are trying to achieve (their outcomes), this is not always formalised in their management systems:

> [M]ost service providers do not have intervention logics or defined outcomes, let alone the measurement tools and systems which will allow them to track progress against those outcomes. (PwC, 2014, p. 7)

Government agencies are starting to make more use of contracting for outcomes, albeit from a low base. Providers submitted that contracting for outcomes has important advantages, such as focusing activity on what matters, helping innovation, encouraging flexibility, and facilitating relational contracting.

The Ministry of Education pointed out:

> When contracting for outcomes, recognition should be made of the role of Government to ensure social services are provided throughout the country and to all those most in need, especially in areas where provider capability is limited.
>
> The feasibility of different approaches to achieve outcomes will depend on the area of the social sector, the type of services needed, and whether there are economies of scale. (sub. DR207, pp. 3-4)

The challenges of attribution

One of the main challenges in contracting for outcomes is that of attributing an outcome achieved to an intervention or a service by a provider for a client or family within a defined timeframe. This is especially difficult where the needs of that client or family are multiple and complex (quadrant D). The Treasury noted:

> Government needs to recognise and acknowledge that attribution to a single NGO would be near impossible. Outcomes do need to be able to be realistic for the NGO, and contribution to final outcomes does need to be measurable. Outcomes of this nature are not impossible to work through, despite attribution issues. However, the significance of this process shouldn't be understated. What the outcomes being sought are and what level of contribution can be expected from NGOs towards these outcomes, will both need to be determined. (New Zealand Treasury, 2013, p. 24)

One way to deal with this challenge is for the funder, working with the provider, to create an intervention logic or theory of change based on evidence of what works that establishes a series of steps that will lead to the desired change. The goal of a particular service may be an intermediate outcome that can lead to a high-level outcome. An example of an intermediate outcome might be "all family debt is repaid" that leads to the high level outcome of "sustained financial independence for the family". Other factors are also likely to be involved in achieving sustained financial independence, like employment for one or more family members, an adequate income and the ability to budget well.

The attribution of an outcome to a particular intervention or single service is particularly challenging for clients with multiple, complex needs (quadrant D) because of the need to integrate services and work closely with the client in determining what is possible (Chapter 10). For example if the family also needed assistance with parenting and finding somewhere better to live, developing an outcomes contract would be harder and more unwieldy. It is also difficult to determine measures at a central point, like a government agency, which knows little about the circumstances of the family in question. A skilled person working at the local level needs the flexibility to identify goals with the family that will work for them.

Where there are multiple variables involved in achieving a desired outcome, the Commission recommends that decisions about how best to provide services are made much closer to clients by the range of providers who can best work alongside them. This calls for more flexibility than is usually possible in a tightly specified, top-down contract, even one oriented to outcomes.

A possible alternative to contracting for outcomes are alliance arrangements which might use a memorandum of understanding which still specifices outcomes to be achieved, but this is done by agreement between the parties. (See the description of the shared goals service model in Chapter 6).

If it is possible to develop one or more adequate outcome measures where the outcome sought is fairly universal, like completing education to a certain standard, then outcomes contracting can work. MSD's Youth Services are an example of outcomes contracting for disengaged youth (Chapter 3; Appendix B). Many but not all of these clients are likely to be in quadrant D.

Developing outcome measures and building them into contracts requires new capabilities and setup costs (New Zealand Treasury, 2013). However, it will also generate considerable benefits, by leading to contracts that are more likely to facilitate experimentation, innovation, integration and a focus on clients. It will not always be easy to define outcomes. Agencies that seek to do so will find that they can best achieve this by

consulting closely with providers and their clients to find out what is important to them. This as an important part of an ongoing discovery process to find new and better ways to meet the needs of clients.

Incentivising outcomes

Incentives within contracts to encourage the achievement of outcomes could take several forms.

The structure of payments to providers influences how they focus their effort. Payments for delivering inputs encourage service availability, but the inputs do not necessarily lead to desired outcomes. Payments for outputs such as training courses encourage the provision of such courses, rather than securing an outcome such as placing people in jobs.

Payments for outcomes are more appropriate, but need to be well designed. For example, paying job search providers for placing people in "sustained work in a role the economy requires on a wage sufficient to provide for a family" is better than paying providers for the number of unemployed people placed in jobs for three months (Haldenby, Harries & Olliff-Cooper, 2014, p. 31). The short-term nature of the second indicator encourages providers to concentrate on easy-to-place people who might have found jobs without assistance, and to "park" those who have difficulty finding work without assistance, or to help them to find jobs that might last little longer than three months.

MSD described its outcome-based contracts with third-party providers for the delivery of the Mental Health Employment Service (MHES) and Sole Parent Employment Service (SPES). MHES is for clients with mild to moderate mental health conditions, and SPES is for clients with sole parent responsibilities who have part- or full-time work obligations. The provider delivers wrap-around, employment-related, case management; employment placement; and in-work support services to participants to support them into work. Providers receive fees on a per client basis upon enrolment, placement into employment and the achievement of continued employment at 6-month and 12-month milestones (MSD, sub. DR224).

Structuring payments to incentivise outcomes can be done in a range of different ways, reflecting factors such as the extent to which outcomes can be measured, and the appetite of government agency and provider to take on risk. For example, the Department of Corrections Out of Gate programme (Box 12.8) illustrated payments being made for both inputs and outcomes, which lessens the risks faced by providers while also providing them with an incentive to focus on outcomes.

Contracting agencies could also consider using non-financial incentives when negotiating contracts to deliver outcomes.

- Publishing the outcomes that providers achieve would keep agencies and providers focused on outcomes and promote knowledge sharing.
- Agencies could agree to less prescriptive contracts and to less oversight where providers have demonstrated that they can deliver outcomes. Given providers' concerns about excessively prescriptive contracts, rewarding good performers with less prescription and oversight could be a powerful incentive.

Agencies will need to build their capability to manage contracting for outcomes, including how to structure payment for outcomes.

R12.7 Social services agencies and non-government providers should continue to expand the use of contracting for outcomes, including the use of incentive payments, where contracting out is the best service model.

Reducing the burden of reporting

Many providers are concerned about the number and complexity of performance reports (Chapter 2). The provider in Figure 2.10 estimated that 20–25% of staff time was spent on contract management and reporting. The Wise Group proposed that "a project should be undertaken to review, standardise, simplify and reduce the volume of reporting for the NGO sector" (sub. 41, p. 3). Similarly, Barnardos supported a standardised approach:

> This includes having common templates and processes for: invoicing – how it occurs and the information required; reporting and monitoring – standardised templates, standardised questions, common ways of collecting and reporting client data and information; [and] a common approach to outcome measurement (sub. 12, p. 22).

Reporting costs are borne by providers and their funders. Agencies specify more reporting than is justified by the risks they seek to mitigate. Barnardos advocated a risk-based approach to monitoring, and more emphasis on sharing the lessons across providers of similar services (sub. 12). The Commission agrees with Barnardos and with the Treasury's view that agencies should structure their monitoring arrangements according to assessments of risks, and document the basis for their assessments (New Zealand Treasury, 2009).

The Treasury suggested that the level of monitoring should differ according to factors such as the nature of the service, the track record of the provider, the amount of money involved, and perceptions of risk (New Zealand Treasury, 2009).

R12.8 Government agencies should structure their monitoring and reporting requirements according to an assessment of risks related to the results or outcomes they seeking.

Managing contract transitions

Contracts can be ended in many ways. When a contract ends, the purchaser needs to undertake a number of steps to complete the contract appropriately (including undertaking an evaluation of the overall performance of the contract) and to manage the transition to a new contract. The Australian National Audit Office's *Better Practice Guide for Developing and Managing Contracts* has a chapter on ending contracts, including how to manage risks such as:

- failure to appropriately manage the transition-out by the contractor;
- not undertaking arrangements for a new procurement early enough in the procurement cycle;
- not managing the process of re-tendering in line with probity requirements, particularly where the existing contractor is re-tendering;
- disruption to the provision of goods and services;
- not addressing performance problems with an existing contractor who is re-engaged; and
- not reviewing value for money when contracts are extended (Australian National Audit Office, 2012).

This issue needs more attention as it is not addressed comprehensively in the Rules of Sourcing or in other guidance material.

Improving capabilities

Agencies that run tenders and design and manage contracts need many skills. These include cost-benefit analysis, risk management, needs analysis, development of performance management frameworks, contract design, running tendering processes, setting up and operating monitoring systems, and evaluation. Agencies also need financial and legal expertise.

Improving capability for contracting should be developed alongside improved capability for commissioning (Chapter 6).

13 The Māori dimension

Key points

- The objectives Māori have for social services are broader than just effectiveness and efficiency – social services have an important role to play in "Māori succeeding as Māori", including Māori being able to exercise collective duties of care that arise from tikanga (customary practice).
- Māori are disproportionately represented among those with poor outcomes. An approach that focuses on deficits alone would ignore the strengths that exist within Māori communities to create change for themselves.
- The aspirations of Māori to improve the outcomes of whānau, and the tikanga around manaakitanga, whānaungatanga, and rangatiratanga, make iwi and urban Māori groups are obvious candidates for further devolution and the commissioning of social services.
- In making decisions about whether and how to devolve the commissioning and delivery of social services for Māori, government should be open to opportunities for Māori to exercise mana whakahaere (the power to manage, govern or hold authority). This should be based on the Treaty of Waitangi principles of partnership, and of active protection of Māori interests and rangatiratanga.
- Enabling greater rangatiratanga within social services requires the Crown to step back from "deciding for" and often "doing for" Māori. Yet if the Crown steps back too far, or in the wrong way, then it risks inappropriately leaving iwi to deliver the Crown's Article Three duties. What matters is who holds mana whakahaere over that activity to achieve the objectives of both parties.
- Whānau Ora embodies concepts important to Māori and holds much potential to improve Māori wellbeing and mana whakahaere. It would be strengthened by a dedicated budget based on assessed needs for a defined population; devolved decision making over the budget; effective resource allocation to where resources can have the most effect; and improved accountability for results.
- The question of how best to devolve responsibility to Māori is open. One process that has been used is Treaty settlement. Yet, the Treaty settlement process is not necessarily well suited to this purpose. The Government should let Māori propose arrangements within or outside the Treaty settlement process for devolved commissioning, rather than co-opt Māori groups into a process, or impose a process on them.
- A broad investment approach opens up new possibilities for Māori to negotiate transfers of responsibility and funding from government agencies to Māori organisations. Data analytics and research will support these possibilities.

This chapter builds on the strong theme in this report of empowering individual clients and families. It also acknowledges that a comprehensive approach to wellbeing is a part of Māori culture. Ngāi Tahu expressed this as follows:

> Te Rūnanga has a holistic understanding of wellbeing: health, wealth, education, cultural pride, spirituality and community help determine the quality of life of our people. (sub. DR162, p. 3)

While empowerment for wellbeing can apply to the population at large, in the case of Māori it has particular significance in relation to the collective. Chapter 4 noted that an effective social services system needs to be responsive to the aspirations and needs of Māori (and Pasifika) people. The objectives that Māori groups such as iwi leaders, rūnanga and provider collectives have for social services are broader than effectiveness

and efficiency. Investing in whānau, hapū and iwi to develop the potential of Māori, build on strengths and provide more opportunities for success is important. Te Puni Kōkiri refers to "Māori succeeding as Māori".[123] Māori leaders also want to exercise duties of care that arise from their tikanga (customary practice).

In this chapter:

- section 13.1 outlines some of the social outcomes that Māori experience, and describes the shift from a "deficit" approach to an empowerment or development approach;
- section 13.2 briefly discusses the importance of collective decision making for Māori;
- section 13.3 describes the duties of care within tikanga Māori;
- section 13.4 discusses the range of Māori organisations that operate in social services;
- section 13.5 outlines why the Treaty and Treaty principles are important in the context of social services;
- section 13.6 provides five examples of different ways that iwi have chosen to be involved in commissioning;
- section 13.7 discusses devolution, commissioning, flexibility and service integration and examines the Whānau Ora architecture in light of these concepts; and
- section 13.8 discusses some ways that data analytics, indigenous knowledge and research may facilitate negotiations about devolution and commissioning.

13.1 From deficits to empowerment

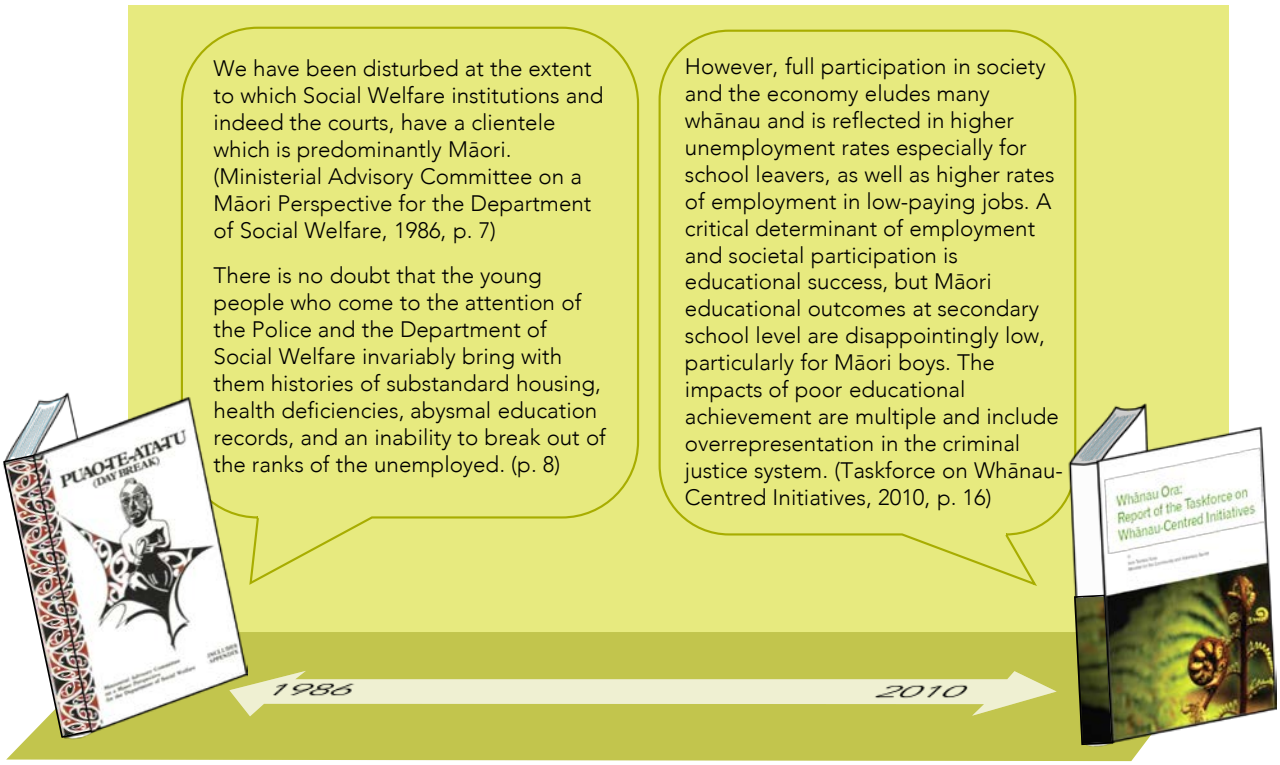
Māori are disproportionately represented among those with poor outcomes. This means they are clients of particular interest to this inquiry. The Ministry of Social Development (MSD) noted that Māori make up:

- 50% of children in the custody of the Chief Executive
- 60% of young people in a youth justice residence
- 48% of people receiving Youth Payment or Young Parent Payment benefits
- 46% of people receiving sole parent support
- 34% of people receiving job seeker support (MSD, 2014, p. 25).

This is despite Māori comprising 15% of the New Zealand population in the 2013 Census. A stark similarity exists between two reviews, 24 years apart, in how they described the poor social outcomes that Māori experience (Figure 13.1).

[123] "Māori succeeding as Māori" is used in Te Puni Kōkiri's 2014 Statement of Intent (Te Puni Kōkiri, 2014).

Figure 13.1 Characterisations of Māori social outcomes, 1986 and 2010



Focusing on "deficits" alone though ignores the strengths that exist within Māori communities to create change for themselves. The Whānau Ora approach is explicitly based on achieving Māori development through building on the strengths of whānau (Appendix C).

A recent report on the experience of Australian Aboriginal peoples and Torres Strait Islanders came to a similar conclusion:

> The objectives of overcoming deficits, disadvantage and poverty immediately invoke the standard tools of the welfare state: top-down government intervention through income transfers and passive service delivery. Individual, family and collective agency is relegated to the sidelines, displaced by the strategies, rules and procedures of the bureaucracy. Failure to achieve progress is taken as evidence of the need for increased funding, further government intervention and better 'coordinated' programs. In contrast, with development as the goal, the solutions are fundamentally different…
>
> Instead, a development approach foregrounds the role of individual, family and collective agency and responsibility—the role of Indigenous empowerment. Development is impossible without expanding individual choice, responsibility and capability. The practical implications of this are that all policies and programs must support efforts to build capability, self-reliance, aspiration and opportunity, and increased choice. (Empowered Communities: Empowered Peoples, 2015, p. 13)

Although some other groups within New Zealand also have poor outcomes, the Treaty dimension adds weight to empowering Māori collectively, as discussed in section 13.5. The predominance of top-down decision making for social services has led to a power imbalance between the Crown and Māori communities, with negative consequences for Māori. Social services often interact with people in the most sensitive, personal, or intimate parts of their lives. Who is empowered to make decisions in these contexts is immensely important for Māori. For example:

- education services shape how young people see the world, and explore questions of identity; and
- child protection, especially where children are removed from their family and placed in the care of another group, can have important consequences for cultural transmission.

The importance of Māori exercising tikanga, the potential for a more effective response to poor social outcomes, and decision-making processes that better reflect the Treaty partnership are all reasons for approaches that empower Māori groups and communities to take greater responsibility for their own wellbeing.

13.2 Individual and collective decision making

Most of this chapter focuses on the involvement of Māori in decision making for their own wellbeing. It is important at the outset though to acknowledge the place of individual and whānau choices.

Like all people, Māori have many different kinds of association (such as professional, personal, religious, and cultural) that shape their identities and choice of lifestyle. The diverse identities that Māori people hold and express generates innovation in the governance arrangements used to participate in decision making (section 13.7 outlines some of these arrangements). The Māori Statistics Advisory Committee (MSAC) made a similar point in its submission to the New Zealand Data Futures Forum (NZDFF):

> The NZDF Forum needs to understand the complexity of what it means to be Māori in modern society; the notions of Māori public and private; urban Māori; whakapapa, and so on. In short the understanding of Māori needs to be in a sophisticated and nuanced manner.
>
> This type of nuanced understanding of Māori would allow the Forum to understand the cultural construction of the individual versus the collective as determined by various Māori communities.
>
> The debate about agreements needed in relation to Intellectual Property and Cultural Rights would fall out of the nuanced understanding of Māori and the various Māori communities. (MSAC, n.d., pp. 1–2)

Māori groups organise themselves in a variety of ways to engage with social services. The social services system needs to be flexible enough to respond to Māori aspirations both at a governance level and at the delivery level, so that Māori can make choices about what options are right for them, including engaging in te ao Māori.

Although this chapter is largely focused on involving Māori collectively in social services decision making, earlier commentary in this report about the importance of client choice is also relevant (Chapter 11). Enabling individuals and families to have more say in decision making about social services that affect them is, for instance, consistent with a Whānau Ora approach to building whānau rangatiratanga.

13.3 Duties of care within tikanga Māori

A number of collective duties of care arise from tikanga that Māori communities wish to express through social services. The key concepts or duties that Māori raised with the Commission were whānaungatanga, manaakitanga, and rangatiratanga.

Whānaungatanga

The Waitangi Tribunal has explained whānaungatanga as a broad kinship concept that acknowledges inter-connectedness between people and the environment, through whakapapa (2011). It is from this inter-connectedness that specific obligations of care arise. Importantly, these duties are not just to direct kin; they can arise also through the inter-connectedness of all people in Māori cosmology.

Manaakitanga

Manaakitanga is "the process of showing respect, generosity and care for others" (Moorfield, n.d.). It also means hospitality towards others and, under this definition, all Māori groups or whānau will exercise manaakitanga at some time. Groups that represent mana whenua (often iwi rūnanga mandated through the Treaty settlement process) may feel an extra obligation to those who live within their rohe (area), regardless of whether they are part of their iwi or hapū:

> Mana whenua has a role distinct from service provision. It is one that monitors the quality of services provided to all whānau in their rohe. It carries obligations and expectations that government agencies, urban Māori mataawaka groups or mainstream organisations do not have; that broadly incorporates whānau and environmental wellbeing. The kaitiaki and manaaki responsibility of Mana Whenua is intersectoral and intergenerational, carried by their ancestors as well as their future descendants. (Te Roopu Waiora, sub. 97, p. 4)

Manaakitanga also extends to those Māori who live outside of their rohe, especially those with tribal links. Iwi Chairs for the Whānau Ora Partnership Group stressed how important whakapapa and the links between urban-dwelling Māori and their rohe and iwi are:

> Recent research debunks the assumption that Māori living in urban centres are disenfranchised from their whānau, hapū and iwi. The 2013 Census revealed that more Māori identify tribal affiliations; four out of every five Māori know their whakapapa. *Taku Marae E*, connecting to ancestral marae, showed that 71% of Māori know their marae, and nearly half of those have visited in the past year. Connection to marae is an important aspect of Māori culture and identity. (sub. DR168, p. 4).

Rangatiratanga

Rangatiratanga can be translated as leadership and sovereignty. For social services, the definition of rangatiratanga that is most relevant may be the one used by the Waitangi Tribunal in its Wai 414 report (1998) on the claim by Te Whānau o Waipareira. The Tribunal found that:

> Rangatiratanga, in this context, is that which is sourced to the reciprocal duties and responsibilities between leaders and their associated Māori community. It is a relationship fundamental to Māori culture and identity and describes a leadership acting not out of self-interest but in a caring and nurturing way with the people close at heart, fully accountable to them and enjoying their support. A Māori community defines itself by a relationship of rangatiratanga between its leaders and members; rangatiratanga gives a group a distinctly Māori character; it offers members a group identity and rights. But it is attached to a Māori community and is not restricted to a tribe. The principle of rangatiratanga appears to be simply that Māori should control their own tikanga and tāonga, including their social and political organisation, and, to the extent practicable and reasonable, fix their own policy and manage their own programmes. (The Waitangi Tribunal, 1998, p. xxv)

The claim that mana whenua groups (often iwi rūnanga mandated through the Treaty settlement process) hold rangatiratanga is now readily accepted. The definition of rangatiratanga used in Wai 414 envisages that groups other than mandated Treaty settlement rūnanga can also exercise rangatiratanga. At different times, and in different ways, Māori organisations relevant to social services exercise some of these duties. Section 13.4 below describes these organisations.

13.4 A diverse range of Māori organisations is involved in social services

Over the last 30 years the landscape of Māori social services providers has changed significantly:

> [D]evolution policies, accompanied by a separation of funder and provider roles and greater contestability among providers, resulted in a major transformation that has generated new systems of health care, education and social work. The advent of a greatly expanded Māori workforce in schools, hospitals, prisons and welfare agencies has significantly altered standards of practice and made services more responsive to Māori. Māori provider organisations have also emerged so that there is greater choice. Whānau can now opt for Māori language immersion education, Māori health care providers, Māori social services – or for mainstream providers. (Taskforce on Whānau-Centred Initiatives, 2010, pp. 19–20)

Now a wide range of Māori organisations are relevant to social services for Māori. Not all of these are "service providers" as such. They include:

- *Mandated iwi rūnanga:* These are tribal governance entities that have received a legal mandate to negotiate Treaty settlements with the Crown. They may have social services provider arms attached to them.
- *Iwi rūnanga, Māori or tribal trust boards that are not Treaty settlement bodies:* These are tribal governance entities established for a variety of purposes other than settlement negotiations. Some have been established by Acts of Parliament (such as Māori Trust Boards).
- *Non-aligned tangata whenua service providers:* Some social services providers have developed to a considerable size, serving the needs largely of a particular population group connected by whakapapa. These service providers may not be formally connected to the tribal authority.
- *Mataawaka (including urban Māori) organisations:* Some Māori organisations and associated management structures have developed to serve the needs of mataawaka populations – commonly urban Māori living outside the rohe of their iwi, and who may no longer be connected to their iwi.

- *Other organisations in Māori civil society:* As Dame Tariana Turia pointed out in the context of Whānau Ora:

> Whānau Ora does not need to be delivered by a service provider… there are other organisations, family collectives, family trusts and marae who already deal with people in family settings who could be doing really important jobs. (Turia; quoted in Bootham, 2014)

These organisations either provide social services to Māori or represent Māori communities. Often, the same organisations can reasonably be said to do both. The principle of rangatiratanga means that Māori should be the ones to choose who represents them in decision-making processes (section 13.3).

There is no consensus within Māoridom about the relative roles of iwi and other organisations. Some take a strong line that it is the role of iwi rūnanga to lead, and their role alone. Others see opportunities for a range of Māori organisations to exhibit leadership in social services.

This debate is one to be resolved among Māori. It does, however, leave government agencies with some challenges in the meantime. Agencies can sometimes find themselves having to pick between the leadership claims of different Māori organisations. It may be useful for agencies to establish some criteria, such as building on existing effective institutions and arrangements, while being open to emerging leadership and new initiatives.

13.5 What is the Treaty of Waitangi dimension?

This section discusses the meaning and importance of the Treaty of Waitangi for social development and wellbeing of Māori. Chapter 2 describes the Treaty of Waitangi in the context of social services.

The Taskforce on Whānau-Centred initiatives (2010) is the most recent social development initiative to set out the importance of the Treaty. It did this in the context of its Whānau Ora proposals. The Taskforce built on a long history of earlier initiatives that are discussed in Appendix C:

> Te Tiriti o Waitangi, the Treaty of Waitangi, remains a key instrument to guide national development. It affirms the unique status of Māori as tangata whenua, the indigenous population, while simultaneously conferring, through Government, the rights of citizenship upon all New Zealanders. In recent times, Treaty-based settlements between the Crown and various iwi have contributed to positive outcomes for all parties. These outcomes help iwi to focus their attentions on the future rather than the past, and provide Government with opportunities to build positive relationships with tangata whenua that can have national benefits. Achieving these positive Treaty-based outcomes requires a capacity to visualise a future based on goodwill and interdependence. (p. 6)

Broadly interpreted, the Treaty gave the Crown a right of governance (kawanatanga) under Article One. Under Article Two, the Crown promised to uphold the authority, rangatiratanga, of the tribes, which they held over their lands and tāonga. The Crown promised to Māori the benefits of royal protection and full citizenship under Article Three (Waitangi Tribunal, 2015).

Treaty language is important in shaping the obligations of the Crown as well as understanding the aspirations and expectations of Māori as participants in the social services systems.

The views of participants in this inquiry

Many inquiry participants told the Commission that the Treaty of Waitangi is central to the relationship between government social services agencies and Māori.

The Iwi Chairs for the Whānau Ora Partnership Group expressed the view:

> The establishment of the Whānau Ora Partnership Group recognises that iwi have a particular interest in the wellbeing and prosperity of our whānau. Te Tiriti o Waitangi forms the underlying foundation of the Crown-iwi relationship and has driven the emergence of a new Whānau Ora Partnership Group, comprising Iwi Chairs and Ministers of the Crown. (sub. DR168, p. 1)

Ngāi Tahu were clear about the centrality of the Treaty:

> Te Rūnanga o Ngāi Tahu has an expectation that the Crown will honour Te Tiriti o Waitangi (the Treaty) and the principles upon which the Treaty is founded. (sub. DR162, p. 9)

Te Tai Tokerau Ora Collective argued that Treaty-derived principles are critical to their work and that they had experienced a shift away from these principles in recent times:

> As Māori providers operating primarily in the health sector for the past 20 years, we have been impacted by major policy shifts away from the core Treaty-derived principles that underpinned Māori health gain and development in the 1990s and early 2000s. These principles are:
>
> - **Meaningful partnerships** predicated on good faith, trust, respect for diverse realities and cultures, shared goals to achieve mutual benefits
> - **Māori participation** at every level of decision-making, design, development, delivery of services and as whānau consumers
> - **Active protection** of Māori interests. (sub. DR227, p. 2)

The principles of the Treaty

The Commission has previously considered the nature of Treaty requirements and where and how they apply in the context of regulation (NZPC, 2014b). This included a discussion about Treaty principles in its report on Regulatory Institutions and Practices:

> The Courts, Waitangi Tribunal and the Executive have all offered their views on the nature of Treaty principles. These lists are neither exhaustive nor conclusive. The Courts are an important authoritative source on the meaning of the principles, but have also said that in interpreting the principles weight should be given to the opinions of the Waitangi Tribunal (*New Zealand Māori Council v Attorney-General,* 1992). (NZPC, 2014b, pp. 166–167)

The principles enunciated by the Court of Appeal, the Waitangi Tribunal and a previous Government are set out in Box 13.1.

Box 13.1 **Treaty principles – three views**

The Court of Appeal

- A relationship of a fiduciary nature that reflects a partnership imposing the duty to act reasonably, honourably and in good faith
- The Government should make informed decisions
- The Crown should remedy past grievances
- Active protection of Māori interests by the Crown
- The Crown has the right to govern
- Māori retain rangatiratanga over their resources and tāonga and have all the rights and privileges of citizenship.

The Waitangi Tribunal

- Partnership
- Fiduciary duties
- Reciprocity – being the cession of Māori sovereignty in exchange for the protection of rangatiratanga, leading to the duty to act reasonably, honourably and in good faith
- Redress for past grievances
- Equal status of the Treaty parties
- The Crown cannot evade its obligations by conferring its authority on another body
- Active protection of Māori interests by the Crown

- Options – the principle of choice
- The courtesy of early consultation.

The Executive[124]

- The Government's right to govern
- The right of iwi to manage their resources
- Redress for past grievances
- Equality – all New Zealanders are equal before the law
- Reasonable cooperation by both parties.

Source: Parliamentary Commissioner for the Environment, 2002; NZPC, 2014b.

In the context of social services three Treaty principles stand out. These are partnership, and active protection of Māori interests and of Māori rangatiratanga.

Partnership and consultation

Partnership obligations and duties between the Crown and Māori are central to the Treaty. In social services the relationship between the Crown and Māori is particularly important because of the major funding and delivery role that Government has in health, education and wider social services. Equally, Māori are looking for opportunities to participate actively in this process. Both partners are motivated by a desire to lift the overall wellbeing of Māori.

The relationship between the Crown and Māori as partners to the Treaty of Waitangi is continuing to evolve through:

- the consideration and settlement of both historic and contemporary claims;
- Treaty provisions in legislation and their interpretation by the courts; and
- emerging social, cultural and economic trends that raise new issues or different perspectives on old issues.

The process of the Crown settling claims by iwi for historic Treaty breaches is well advanced and iwi who have settled are moving into a new era. Some iwi have used the settlement process to make arrangements that can improve the lives and wellbeing of their people (section 13.6).

Treaty provisions or clauses in Acts of Parliament are a legal acknowledgement of Māori interests and rights, and provide a more specific definition of the Crown's responsibility with respect to those rights (that in the absence of a specific clause might be interpreted more generally). The Crown cannot devolve its Treaty responsibilities (Chapter 5).

Most clauses in legislation relate to process and most require that the decision-maker "take account of" or "have regard to" the principles of the Treaty. Interpretation of the principles continues to evolve over time. Even so, the central obligation is to act in good faith and work out answers in a spirit of honest cooperation. Obligations include "consultation on truly major issues" (*New Zealand Māori Council v Attorney-General*, 1989) and can extend to "active steps to protect Māori interests" (*Ngāi Tahu Māori Trust Board v Director-General of Conservation*, 1995).

[124] First expressed by the Fourth Labour Government.

Of relevance to social services, there are Treaty clauses in the Education Act 1987; the Human Rights Act 1993; the Local Government Act 2002; and the New Zealand Public Health and Disability Act 2000 (NZPHDA). In particular, s 4 of the NZPHDA provides that:

> In order to recognise and respect the principles of the Treaty of Waitangi, and with a view to improving health outcomes for Māori, Part 3 provides for mechanisms to enable Māori to contribute to decision-making on, and to participate in the delivery of, health and disability services.

Even where "Treaty clauses" are not present in relevant legislation, the particular context may require the Crown to have regard to the principles of the Treaty of Waitangi (Joseph, 2014). The Commission considers that the design and delivery of social services should have regard to the principles of the Treaty of Waitangi.

Active protection of Māori interests

Inquiry participants submitted that, under the Treaty, the Crown has duties of active protection of Māori interests and protection of tino rangatiratanga:

> The Crown has an on-going obligation and forward-looking duty to support iwi interests in their own social and economic development under the Principle of Active Protection of Māori Interests and protection of tino rangatiratanga in Article Two of the Treaty. (Te Rūnanga o Ngāi Tahu, sub. DR162, p. 3)

Failure to provide this active protection, leading to loss of land, other resources and culture is the basis for much of the redress through the Treaty settlement process. But active protection is also a forward-looking duty, and may include Māori interests in their own development (both social and economic).

While settlements provide a basis for social and economic development, they do not affect the rights of Māori to access government-provided or government-funded social services on the same basis as other New Zealand citizens:

> The transfer of resources to Iwi under the Treaty settlement process should not be equated with a transfer of Crown responsibility for meeting the health, social and economic needs of Māori citizens. (Te Tai Tokerau Whānau Ora Collective, sub. DR227, p. 2)

> The findings that Māori are disproportionately represented in the client base of some services, and that Māori aspirations for greater rangatiratanga are a Treaty entitlement, do not excuse the Crown from its Article three responsibility to ensure the Māori right to the same level of service as other citizens, as well as its Article two responsibility to enable Māori to exercise their inherent mana whakahaere. (Public Health Association of NZ, sub. DR173 p. 4)

Making space for rangatiratanga

Iwi and other structures within Māoridom present opportunities for Māori to lead their own economic and social development. These developments have raised boundary issues between the role of iwi and the role of the Crown. In particular, enabling greater rangatiratanga within social services inherently requires the Crown to step back from "deciding for" and often "doing for" Māori. Yet if the Crown steps back too far, or in the wrong way, then it risks inappropriately leaving iwi to provide services that Māori, as citizens, are entitled to receive from the Crown.

Social services for Māori that are publicly funded and/or based in the institutions of government will reflect a mixture of both kawanatanga and rangatiratanga (consistent with the partnership obligations between Māori and the Crown set out in the Treaty). What is important here is not so much whether any given activity is a kawanatanga or rangatiratanga responsibility, but instead who should hold mana whakahaere to achieve the objectives of the parties of the Treaty. The Iwi Chairs for the Whānau Ora Partnership Group noted:

> The Iwi Chairs agree with the Commission that what matters most is who should hold mana whakahaere over any activity to achieve the objectives of both parties. (sub. DR168, p. 2)

Where the Crown has exercised mana whakahaere, it may have fulfilled its duties to Māori as citizens, but it may have paid insufficient heed to rangatiratanga. This report argues that government should encourage and facilitate a deeper level of engagement and decision making by groups and individuals closest to those people for whom wellbeing is a concern. Empowerment of Māori groups; that is, the devolution of decisions close to the whānau who need services and support, is key to achieving this. Devolution of commissioning

decisions would help create opportunities for Māori groups to exercise mana whakahaere in delivering social services. This has the potential to both improve outcomes and lead to more effective exercise of rangatiratanga.

F13.1 Creating opportunities for Māori groups to exercise mana whakahaere in delivering social services has the potential to both improve outcomes and lead to more effective exercise of rangatiratanga. More devolution of commissioning decisions to Māori would help create such opportunities.

R13.1 In making decisions about whether and how to devolve the commissioning and delivery of social services for Māori, government should be open to opportunities for Māori to exercise mana whakahaere. This should be based on the Treaty of Waitangi principles of partnership, and active protection of Māori interests and of rangatiratanga.

13.6 Existing Māori involvement in commissioning social services

The Commission has observed a variety of ways in which Māori are involved in social services. These vary across the country, according to iwi and other group aspirations, with some tied to Treaty of Waitangi settlements and others quite independent of them.

Māori groups may prefer to be involved in some ways but not others. The following examples demonstrate a range of aspirations and approaches.

Ngāi Tūhoe – mana motuhake

Ngāi Tūhoe have a strong interest in taking full responsibility for decision making about their future wellbeing as a tribe. This arises from their desire for mana motuhake (Box 13.2)

Box 13.2 **How Ngāi Tūhoe define mana motuhake**

> Mana Motuhake is the acceptance of obligations, duty and responsibility to the full in order to be deserving of all the rights, entitlements and privileges that ensue. Mana Motuhake is a 'collective action' grounded mechanism, not individual, therefore it comes in to view with hapū and their whānau behaviour, attitude and actions.
>
> Mana Motuhake is the politic of being Tūhoe. The integrity of Tūhoetanga relies upon the dedication of Tūhoe people to be self-governing, paying and earning their own way, not beholden to others, not enslaved by another ideology. The raising of whānau, hapū stature strengthens the iwi. The tribal authority will be the conduit by which the ideology and principles are restored to whānau and hapū.
>
> Mana Motuhake is a political stance that supports the retention and restoration of power and control by Tūhoe over all matters pertaining to Tūhoe. This confirms the validity of hapū political systems and rights to exercise leadership authority pertinent to decision-making that is based on Tūhoetanga. The freedom to determine how Tūhoe will live, how they will raise their children and mokopuna, how they will keep traditions alive, how they will celebrate who they are, how they will preserve and maintain their language and cultural values and ultimately how they will prosper and continue.

Source: Tūhoe Establishment Trust, 2011, p. 12.

There are several critical components to the provision of social services that the Crown has developed with Ngāi Tūhoe through the Treaty settlement process.

- The relationship statement *Nā korero Ranatira ā Tūhoe me Ta Karauna* (2 July 2011). This was significant because it included an acknowledgement by the Crown of the mana motuhake of Tūhoe, and acknowledgement by Tūhoe of the mana of the Crown (Sapere, forthcoming).

- The *Service Management Plan* (November 2012). The SMP has a 40 year timeframe and was developed as a consequence of the *Nā korero Ranatira ā Tūhoe me Ta Karauna*. It is structured as a series of bilateral agreements between the participating agencies and Tūhoe (Sapere, forthcoming). It is overseen by a Social Service Taskforce, comprised of officials from the agencies party to the agreement. MSD has responsibility for cross-agency leadership and works with the Ministry of Business, Innovation and Employment and the Ministry of Education to assist in the planning and development of a Tūhoe welfare system aimed at reducing incidence of beneficiary dependence.

In Tūhoe's view "the SMP is a Crown document and a Crown responsibility and while they would attend the Taskforce meetings they were not part of the Taskforce" (Sapere, forthcoming, p. 12). The Taskforce has not met since November 2013 (Sapere, forthcoming).

MSD continues to work with Tūhoe to give effect to its mana motuhake in the delivery of social services. There is some way to go to determine the best model to achieve mana motuhake, but Tūhoe's aspiration to be self-governing is a strong one.

Te Hiku Social Development and Wellbeing Accord

Four Te Hiku o Te Ika Iwi have entered into an agreement with the Crown as part of their Treaty settlement.[125] The social accord is one way that Government is increasing choice and empowering service users (Chapter 3).

Box 13.3 sets out the background and purpose of the social accord.

Box 13.3 **Te Hiku Social Development and Wellbeing Accord**

The Te Hiku Development Trust released a media statement on 5 February 2013:

> Social indicators that describe wellbeing have consistently lagged far behind the rest of the country. Northland, and particularly for Māori in the region, live with these negative statistics every day. The Accord is a strategic collaboration between the iwi and Crown agencies which will help to align their objectives and achieve improved social outcomes for the whānau and communities within the region.

Chairperson for the Trust, Haami Piripi, said:

> The Crown recognises the existence of disparities in social outcomes for Northland. Our people are having to deal with some really difficult issues. Finding work when there's few jobs is hard enough but we're also faced with poor housing, Māori not achieving highly enough in education, an alarmingly high suicide rate and a number of other safety concerns for our tamariki and whānau that need solutions. Iwi want to work with providers, Crown departments and Ministers to address these problems and makes positive changes in the lives of our people.

Piripi further explained how the social accord was linked to the Treaty Settlement process:

> Iwi want to sit alongside the Crown to identify problems, develop solutions and make decisions about ways that the two partners can improve the lives of our people. The Social Development Accord represents a milestone in Government – Iwi relationships and provides a roadmap for implementing the intent of Te Tiriti o Waitangi as it was agreed by our forebears both Māori and Pākehā.

Source: Te Hiku Iwi Development Trust, 2013.

The Commission met with representatives of the Te Hiku Iwi Development Trust. The Trust does not wish to engage in service delivery or purchase decisions. Instead, they see their role as being at the governance level only, influencing the direction of social policy within their collective rohe. This could be described as

[125] The four Te Hiku o Te Ika Iwi (iwi in the far north) who have signed the accord are: Ngāti Kuri, Te Aupōuri, Ngāi Takoto and Te Rarawa. A fifth iwi, Ngāti Kahui may become a party to the social accord at any time by giving written notice to the parties (Te Hiku o Te Ika Iwi – Crown Social Development and Wellbeing Accord, February 2013).

participating in commissioning to give effect to the manaakitanga and rangatiratanga duties of mana whenua for the social wellbeing of their people and others residing in their rohe.

Ngāti Tūwharetoa's Agreement in Principle

Ngāti Tūwharetoa is different again. Rather than seeking to achieve formal inclusion in commissioning through the Treaty settlement process, they have instead used the process to get an undertaking from the Crown to provide them with the information necessary to directly negotiate projects with the relevant Crown agencies. Box 13.4 reproduces the relevant section of their Agreement in Principle.

Box 13.4 **Cultural and social wellbeing section of the Ngāti Tūwharetoa Agreement in Principle**

6.56 The Crown acknowledges that Ngāti Tūwharetoa aspire to work with Crown agencies on projects to enhance the education, health and living standards of Ngāti Tūwharetoa people, and to improve their cultural and spiritual wellbeing. The 2013 Census shows that Ngāti Tūwharetoa people have suffered significant social and economic deprivation, which is illustrated by the following statistics:

6.56.1 Ngāti Tūwharetoa people had a median income of $21 900 (compared to a national average of $28 500, and a national Māori average of $23 700);

6.56.2 32.2% of Ngāti Tūwharetoa had received income support in the 12 months prior to the Census; and

6.56.3 55.3% of Ngāti Tūwharetoa lived in rental accommodation (17.9% of which was provided by Housing New Zealand).

6.57 Beyond the settlement, Ngāti Tūwharetoa aspire to support Māori landowners in their area of interest to develop their lands and resources for the benefit of their people. Ngāti Tūwharetoa consider that there are significant opportunities for sustainable development of their lands, forests, farms, fisheries and other natural resources. This would make a significant contribution to whānau and hapū of Ngāti Tūwharetoa, and also to the district, regional and national economies.

6.58 The Crown will, outside of this settlement, work with Ngāti Tūwharetoa to develop a socio-economic data profile for Ngāti Tūwharetoa members prior to the deed of settlement. Ngāti Tūwharetoa will then approach Crown agencies in relation to any issues identified by the profile.

Source: Office of Treaty Settlements, 2015.

Although not a formal co-governance arrangement for commissioning social services, this is still an example of an iwi seeking to exercise rangatiratanga in social services.

Whānau Ora commissioning agencies

Whānau Ora is phase two of its development and features a new form of commissioning (Appendix C). In 2013 the Crown decided to establish two kaupapa Māori commissioning agencies, organised largely, but not only, along geographical lines: one based in West Auckland with responsibility for the North Island, and another in Christchurch with responsibility for the South Island. A third commissioning agency has been established to serve the Pasifika population throughout New Zealand.

Te Pou Matakana

Te Pou Matakana was established in 2014 by the National Urban Māori Authority (NUMA), which is its principal shareholder and appoints the board of independent directors. Te Pou Matakana won the tender to become the Whānau Ora Commissioning Agency for Te Ika o Māui (the North Island).

Te Pou Matakana has its roots in urban Māori which NUMA represents. NUMA is a national umbrella organisation with four affiliate Urban Māori Authorities (UMAs) that provide services to whānau in three main centres (Auckland, Hamilton and Wellington). The services cover education, health, housing, justice, and

social-work services.[126] The UMAs were set up in response to the migration of Māori to cities over two generations during the 20th century, recognising that "by the mid-1980s nearly 80% of Māori lived in cities" (NUMA, 2009).

Te Pou Matakana has as its kaupapa "supporting successful families" through a three-pronged approach:

- applying the collective impact model (Chapter 3);
- providing direct support to whānau through its "Whānau Direct" programme; and
- co-investing with partner organisations (Te Pou Matakana, 2014).

It aims to design and deliver initiatives and new services that are targeted to whānau who need them. One of NUMA's affiliates, Te Whānau O Waipareira Trust provides backbone or back-office support and has developed an ICT-based whānau assessment tool to help monitor and report progress against Whānau Ora outcomes. Whānau Direct is an initiative to develop whānau capability and capacity. Te Pou Matakana is conducting a pilot with 22 Whānau Ora provider collectives throughout the North Island for this purpose.

Of the three Whānau Ora commissioning agencies, Te Pou Matakana serves the largest population. It uses four criteria to select service providers:

- experience;
- relationships with the local community;
- geographic reach; and
- track record in the delivery of integrated social services.

Te Pūtahitanga o Te Waipounamu

This new entity was established in 2014 by the nine iwi who hold mana whenua in Te Waipounamu (the South Island).[127] It successfully tendered to be a Whānau Ora commissioning agency. In its submission to the Commission on the draft report Te Pūtahitanga explained the relationship between iwi and the commissioning agency and the ongoing governance arrangement:

> Te Pūtahitanga o Te Waipounamu is a limited partnership supported by the nine iwi of Te Waipounamu which has appointed an independent governance board to direct Te Pūtahitanga through a Shareholders' Council known as Te Taumata. Te Taumata has appointed an independent governance board which is responsible for the investment strategy. (sub. DR152, p. 1)

Effectively the iwi are joint owners of Te Pūtahitanga. This arrangement gives iwi a strong ability to hold the commissioning agency to account, and to link with Te Puni Kōkiri and Ministers through the Whānau Ora Partnership Group. At the same time, it allows each iwi to maintain its distinctiveness and adopt an approach that aligns with its values and aspirations.

Te Pūtahitanga has a kaupapa of investing in whānau for their development and has organised its approach around achieving the six Whānau Ora outcomes:

> Te Pūtahitanga has chosen to invest in transformative change to build sustainable whānau capability. Te Pūtahitanga supports flax roots innovation and whānau writing their own futures. The commissioning model is primarily directed at growing approaches in Te Waipounamu to support the achievement of whānau self-determination. (sub. DR152, p. 2)

The four priorities for investment are enterprise and job creation, education and leadership, wellbeing, and inspiration and catalysts. The commissioning agency wants to be able to monitor how well this approach is working and has developed an Opportunity Realisation and Aspiration Index for tracking

[126] The four UMAs are: Te Whānau o Waipareira Trust, Manukau Urban Māori Authority, Te Rūnanga o Kirikiriroa, Te Kohao Health Trust and Te Roopu Awhina ki Porirua Trust.

[127] The nine iwi of Te Wai o Pounaumu are: Ngāi Tahu, Ngāti Apa, Ngāti Tama, Ngāti Kuia, Ngāti Koata, Te Ati Awa, Ngāti Toa Rangatira, Rangitane and Ngāti Rarua.

progress with its investments. The index consists of eight indicators ranging from high social needs to aspirational goals.

Governance

In phase two the Government established the Whānau Ora Partnership Group, comprising six ministers and six iwi leaders. The group is chaired by the Minister for Whānau Ora and has responsibility for determining

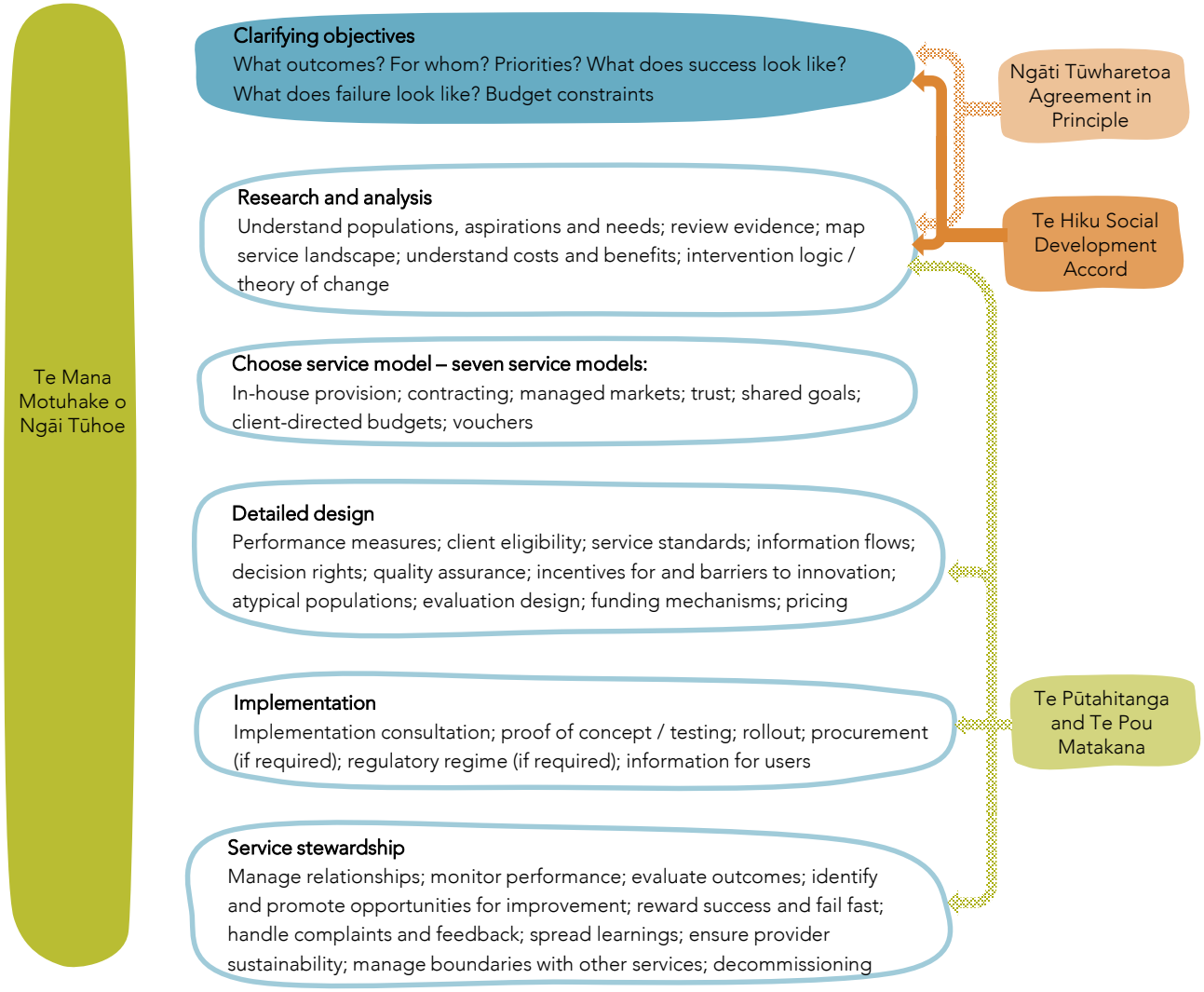
> the Whānau Ora outcomes that Commissioning Agencies need to achieve and identifies opportunities that the Crown and iwi can contribute to, that support the aims and aspirations of whānau, hapū and iwi, in relation to Whānau Ora. (Minister for Finance & Minister for Whānau Ora, 2014)

The Māori members of the Partnership Group submitted that they welcomed this development but that they would "need to see a far stronger take-up from other government departments in supporting a Whānau Ora approach" (Iwi Chairs for the Whānau Ora Partnership Group, DR168, p. 3). As well, each of the commissioning agencies has an independent board that oversees its work.

Summary of Māori participation in commissioning

As the above accounts demonstrate, Māori involvement in commissioning to achieve greater wellbeing for iwi and urban Māori takes different forms. Figure 13.2 provides a snapshot of the different choices that Māori are making.

Figure 13.2 Participation in commissioning by the five Māori groups



Notes:

1. The blue bubbles are the commissioning tasks described in Figure 6.1, Chapter 6. The figure indicates where a Māori group undertakes at least some of the commissioning tasks in each bubble.

Two choices for devolution appear to be emerging. These are an existing self-identified Māori community (the iwi-based initiatives) and broad geographic areas (Whānau Ora commissioning agencies). The next section discusses these choices in the context of devolution, commissioning, flexibility and service integration.

13.7 Devolution, commissioning and flexibility

The aspirations of Māori to improve the outcomes of whānau, and the tikanga around manaakitanga, whānaungatanga and rangatiratanga, make iwi and other Māori groups obvious candidates for further devolution in commissioning and providing social services.

A number of participants referred the Commission to earlier examples of devolution of social services, such as occurred during the 1990s and early 2000s under the Regional Health Authorities and the Health Funding Authority. These approaches led to innovation and empowerment of Māori groups and users of social services who have a high interest in improved wellbeing for their people. A regression to top-down approaches to social service delivery has to some extent reversed the gains of those years:

> We have long and direct experience to a forerunner of the Whānau Ora commissioning model, known as Māori Co-Purchasing Organisations (MAPO) which operated in the northern region from 1995 to 2010. What we contribute to the inquiry is a critique based on first-hand experience of the successes and challenges of independent Māori-led organisation working in partnership with government funders to maximise health and economic benefits to communities, whānau and families. (Te Tai Tokerau Whānau Ora Collective, sub. DR227, p. 1)

Chapter 5 sets out the reasons why government agencies are not always best placed to carry out the commissioning of social services. Increased devolution of decision making may be more appropriate in a range of circumstances, albeit with appropriate accountabilities back to Parliament. Chapter 6 explains that commissioning is a complex set of inter-related tasks that includes choosing the right service model. The chapter makes the case that the wellbeing of the individual client and families/whānau are central to decision making.

Devolving commissioning to communities of interest – people with a shared interest and identity – is one option. The Whānau Ora commissioning agencies are an example of this form of devolution.

Whānau Ora provider collectives have some of the features of the shared goals service model (Chapter 6).

Service integration is also important

While partnership with and devolution to Māori are broader than the devolution and commissioning of social services, social services are central because of the poor health and social statistics for Māori. In announcing the Whānau Ora Partnership Group, Ministers emphasised the importance of integrated services:

> Whānau Ora places whānau and families at the centre of service delivery, requiring the integration of services like health, education and social services. (Minister for Finance & Minister for Whānau Ora, 2014)

Iwi leaders also highlighted the importance of integration:

> We are of the view that the defining point of the Whānau Ora approach is an integrated and seamless coordination centred on whānau. (Iwi Chairs for the Whānau Ora Partnership Group, sub. DR168, p. 3)

Many whānau have multiple and complex issues that they wish to address. Integration of services at the point of delivery is one solution. Chapter 10 identifies characteristics of effective integration initiatives:

- decision making close to clients (ie, by those with information about their specific and evolving circumstances);
- capability to engage with the family/whānau and their wider social context;
- a "navigator" (or equivalent) to prioritise and sequence services;
- a dedicated budget that is adequate to cover the range of services needed and local decision rights over the use of that budget;

- allocation of resources to where they have the most effect and information to support allocation decisions;
- devolution (so that close Ministerial and departmental control does not lead to over-reaction to individual cases, or the over-specification of services);
- sufficient contestability to reward good providers and replace those that are not delivering;
- experimentation and learning; and
- accountability for outcomes.

Whānau Ora as a devolved architecture to provide integrated services

As a strengths-based approach Whānau Ora has a number of the characteristics for a model to provide effective integrated services for families with multiple, complex needs and aspirations. For example, navigators (kaiārahi or kaitorotoro) are a key feature of Whānau Ora. Box 10.2 describes a generic navigator service that, among other things, can develop a relationship of trust with the family and understand their history. This is similar to the role of Whānau Ora navigators, although it is important to recognise that these navigators also help families build on their strengths and do their own planning. (Box 5.5).

Table 13.1 compares features of Whānau Ora against the requirements service integration identified in Chapter 10.

Table 13.1 Features of Whānau Ora compared to requirements for service integration

Requirement	Whānau Ora
Decision making close to clients/whānau	Navigators and providers or other organisations work with whānau on plans to achieve aspirations or provide support/services.
Engaging with the family/whānau and their wider social context	All commissioning agencies expect navigators to connect to the whānau's wider hapū and iwi.
A navigator	Each commissioning agency funds navigators, with a total of approximately 230 employed across the country.
Dedicated budget	In a Whānau Ora context a dedicated budget would be one that is commensurate with the services or support required for a defined population. The budget would draw more widely on resources from "mainstream" funding than is currently the case, to achieve integrated services.
Allocation of resources to where it has the most effect	Commissioning agencies use different approaches to match needs/aspirations with resources and identify returns on investment.
Devolution	The commissioning agencies are part of a new devolved architecture. They contract with providers and other groups to achieve better outcomes for and with whānau.
Sufficient contestability	Te Puni Kōkiri ran a contestable process to select commissioning agencies, and commissioning agencies run contestable processes to allocate funding.
Experimentation and learning	A new measurement approach for phase two is being developed to assess progress against outcomes. It includes research, evaluation and monitoring.
Accountability for outcomes	Whānau Ora has six high level outcomes. Commissioning agencies report quarterly to Te Puni Kōkiri using KPIs. A new measurement framework for phase two is being developed. Commissioning agencies are trialling incentive payments (Appendix C).

As well as navigators, Whānau Ora has several characteristics for a model to provide integrated services for families with multiple, complex needs and aspirations. These are: decision making close to the client/families; engaging with the whānau and their wider social context; devolution away from tight

ministerial and departmental control; sufficient contestability to reward good providers; and experimentation and learning. Te Puni Kōkiri is developing a measurement framework to strengthen accountability (Appendix C).

Other essential integration characteristics include a dedicated budget to meet the service needs of a defined population, local decision rights over the use of that budget, and allocation of resources to have the most effect.

Finding ways of reducing overlap with other integration initiatives, for example Social Sector Trials and Children's Teams would also be of benefit (Box 10.3).

If the Government decided to proceed with either model set out in Chapter 10, it would need to work through how to align or incorporate Whānau Ora, preserving the kaupapa Māori orientation and building on its strengths.

Whānau Ora has not been without its detractors (Appendix C). But several experienced social services providers told the Commission that Whānau Ora provided the flexibility to work with families in ways that met their needs. Further, they would like to have more dedicated funding and flexibility to deliver to more families. Te Taiwhenua o Heretaunga, a Hawkes Bay provider, described the need to extend the Whānau Ora approach:

> The Centralised Hub approach can build provider networks that extend beyond the role of TToH as a provider. Working with our whānau ora collective, Takitimu Ora, we have started to extend the reach of services for our clients. This is only possible due to our willingness to use our existing resources, some support from Te Pou Matakana (North Island Whānau Ora Commissioning Agency) to support this development. The lack of funding support to organise and lead systems at a local level contributes to ongoing fragmentation and reduces the opportunity. (sub. DR189, p. 3)

Another provider described Whānau Ora:

> [M]any Māori families have "forgotten how to dream". Members of some of these dispossessed families have never even had a piece of ID. No ID means no bank accounts, no driver's licence, no job, no benefits, and no connection with the system. Basic needs can be assisted by Whānau Ora, but it's flexible enough to allow for more: it might pay for someone to sit a driver's licence, for example, which will open a whole new door on their life. (de Boni, 2015)

Participants also told the Commission that greater involvement in Whānau Ora by mainstream government agencies was essential if Whānau Ora was to succeed:

> At its end we would hope that Ministers would also endorse and embrace an intergovernmental approach to Whānau Ora…The Minister of Social Housing could be promoting [a] Warrant of Fitness as creating healthy lifestyle opportunities for whānau. The Minister for Conservation could be promoting relationships between protection of our environment and contribution to mental health. The Minister for Economic Development could be championing whānau base entrepreneurship. (Iwi Chairs for the Whānau Ora Partnership Group, sub. DR168, p. 3)

> We are also disappointed that across government agencies, other than Te Puni Kōkiri, it would not yet appear that the transformational potential of Whānau Ora is being supported in cross-sectoral investment. (Te Pūtahitanga, sub. DR152, p. 4)

The Commission finds that Whānau Ora shows much promise to tackle long-standing issues for improving Māori wellbeing. Its kaupapa Māori approach is especially important to Māori wellbeing. It has many of the characteristics required for a devolved model to promote integrated services for families with multiple, complex needs and aspirations.

F13.2 Whānau Ora embodies concepts important to Māori and holds much potential to improve Māori wellbeing and mana whakahaere. It would be strengthened by a dedicated budget based on assessed needs for a defined population; sufficient decision rights over the budget; effective resource allocation to where resources can have the most effect; and improved accountability for results.

Devolving to Māori: future prospects

The question as to how best to devolve responsibility to Māori in the future is open. Section 13.5 sets out why the process the Crown uses to decide which Māori organisations to engage with for the purposes of devolution is important. Applying the Treaty principles includes acting in good faith and using good consultation processes in making these choices. Good governance (kawanatanga) means it is important that the process of determining who to partner with in social services needs to be open. It needs to allow for the various claims to representation and for influence from Māori organisations to be heard and considered fairly. Anything less than an open process is likely to lead to a sub-optimal involvement of particular communities in the decisions that affect them.

Iwi leaders involved in Whānau Ora expressed their views about future collaboration:

> The Iwi Chairs of the Whānau Ora Partnership Group have welcomed the recent moves towards commissioning and look forward to increasing opportunities to discuss with the Crown how Māori might like to be involved in commissioning over and above the Whānau Ora approach. We believe that to represent an effective Treaty Partnership model, the process must come from Māori, rather than being a model that Māori groups are co-opted into, or have imposed on them. We seek ongoing discussion about the nature of the constraints or limitations that the Government might like to suggest are necessary; and how to ensure that whānau, hapū and iwi are able to define and interpret the arrangements in collaboration with the Crown. (sub. DR168, p. 4)

Treaty settlement underlies three of the five examples covered in section 13.6. This process has allowed iwi to articulate concerns and aspirations about the wellbeing of their people, but the systems and processes that they need to act on these are not yet well developed. This raises questions such as:

- does the Treaty settlement process, which is aimed at achieving full and final settlements, include sufficient flexibility to cope with social need and/or aspirations for greater wellbeing?
- does the primacy of the Treaty settlement process potentially exclude from consideration organisations – such as urban authorities and non-aligned tangata whenua groups – who could otherwise usefully be involved?

The Commission expects that some approaches may involve a shift in mana whakahaere in future (section 13.5). This may require the new structures and processes, and it is likely to take some time for these to develop and mature. Treaty settlement has provided opportunities for iwi to begin a commissioning process with the Crown; it remains to be seen how much these initiatives can achieve. Whānau Ora already involves urban Māori groups in devolved commissioning outside the settlement process. While care needs to be taken not to further fragment funding and responsibility, it is appropriate that Māori/iwi determine the pace and extent of development, and the organisations involved.

The Commission concludes that the Treaty settlement process itself is not necessarily well suited to exploring opportunities for Māori groups to have greater involvement in social services commissioning, especially as New Zealand moves into a post-settlement era. Any process used needs to come from Māori; rather than the Government co-opting Māori groups into a process, or imposing a process on them.

F13.3 The Treaty settlement process is not necessarily well suited to exploring opportunities for Māori groups to have greater involvement in social services commissioning.

R13.2 The Government should let Māori propose arrangements within or outside the Treaty settlement process for devolved commissioning, rather than co-opt Māori groups into a process, or impose a process on them.

13.8 The potential for data analytics to assist in achieving Māori aspirations

The New Zealand Data Futures Forum consulted on and analysed the potential for data to empower Māori (Box 13.5).

Box 13.5 **New Zealand Data Futures Forum on using data to empower Māori**

During our discussions with Māori, we heard many of the same themes as we heard elsewhere. However, we heard strongly that Māori want to be involved in the use of the data about them.

- Māori use and control of Māori data are important to support Māori goals. This is about Māori business. It's also about whānau, iwi, urban Māori, whakapapa and the ability to exercise tikanga, such as manaakitanga and kaitiakitanga.
- Many Māori do not perceive themselves as having benefited much from the collection and use of data.
  - They perceive a real and immediate risk of greater data availability being used for ethnic profiling, to their detriment.
  - Despite widespread demands on them for data in the past, the data seems to be rarely used in ways that might benefit them.
  - There is a vicious circle in which negative statistics reinforce poor outcomes and negative perceptions, which in turn yield more negative statistics.
  - Māori are often denied access to data they have provided and data about them, or it is collected or used in ways that do not meet their needs.
  - Collection, storage and use of data often occur in ways that do not respect Māori tikanga.

Government's data about Māori should not be hidden away in various state sector silos, especially as there is enormous potential to use the data to identify and respond to opportunities and support Māori development. Examples of projects that would deliver value for Māori communities include understanding preventable mortality in the Auckland region, building on the Sensing Cities work and sustainable land-use data for development of Māori enterprise. There are undoubtedly many other examples. We recommend a much stronger effort to work with Māori to ensure data for and about Māori is used in collaborative projects that create value for Māori communities.

Source: NZDFF, n.d., pp. 42–43.

In social services, government agencies are interested in the potential to use data to better:

- "target" or prioritise types of client;
- match the most effective interventions to the clients who will respond best to them; and
- measure the benefits of social services and to make stronger cases for resourcing.

Chapter 8 discusses the challenges of better data analytics across the social services system. Māori social services providers may also share this enthusiasm. Data, such as student educational statistics broken down by iwi, can be used to advocate for improved programmes where necessary. Data can serve as a "critical friend", so that Māori social services providers can improve their own performance without reference to formal contract monitoring. The Whānau Ora commissioning agencies are placing considerable emphasis on building the evidence base of their work. Te Pou Matakana is developing an information system as part of its backbone infrastructure for interfacing with the providers it contracts with. It has also developed a social-cost calculator to support its Whānau Direct programme. Te Pūtahitanga has developed an Opportunity Realisation and Aspiration index to track progress with its investments.

The expected benefits of data analytics need to sit alongside traditional Māori knowledge about relationships and wellbeing that is part of tikanga:

> Information technology is essential as a tool for development. Data in its own right is unhelpful but to be effective must only ever be one tool of analyses and not an end point or rationale. (Te Rūnaka o Ōtākou, sub. 110, p. 9).

Māori participants told the Commission that building an indigenous research base is also important. The Government has recently decided to support Ngā Pae te Māramatanga (Māori Centre of Research Excellence), which was established in 2002, through a new tranche of funding for the period 2016–2020.

The promise of data analytics for government is that it will provide agencies with information and knowledge not previously available, given its relative distance from the circumstances of people's lives. Data analytics, when combined with local knowledge by Māori within their communities (eg, whakapapa and whānaungatanga) and published research, could be particularly powerful in determining which approaches would best improve outcomes for Māori.

The Māori Statistics Advisory Committee has identified broadly where and how data can be used within the processes of tikanga:

> For Māori, the approach to this kaupapa should be enshrined in processes of tikanga. Eg, manaakitanga is based upon data showing how we assist our own and carry out this deep-seated obligation to all peoples; kaitiakitanga needs data to show how we add value to care for the environment and control use of resources so they are fully available for future generations – which means using past and future generations data to exercise that duty.
>
> This means that the kaupapa starts with the relationship of the personal to the collective and vice-versa: descent from whakapapa is where this relationship starts and it affects everything in Te Ao Māori stemming out for instance to wāhi tapu. (MSAC, n.d., p. 1)

This raises a related point. Much statistical information is on an individual basis but, in the context of te ao Māori and empowering Māori communities, being able to understand the situation within whānau and hapū is important. Some of the potential for data to aid Māori development is in understanding the dynamics and strengths within hapū and whānau. This can help identify both potential underlying causes of problems and also the hapū and whānau resources that can be drawn on to address those problems.

Therefore, data analytics may hold some particular promise for Māori because government is:

- more responsive to data, so it becomes a powerful language for bargaining for resources; and
- more interested in applying a broadened investment approach.

There appears to be no shortage of ideas for improving outcomes for Māori from social services. Getting traction on these ideas has proven more difficult, especially where the benefits of, say a housing initiative, are likely to show up for government as a reduction in expenditure in a different sector such as health or education. As well, the politics of ethnicity in New Zealand means that Māori-led or visibly Māori "branded" initiatives will often receive greater-than-usual critical scrutiny. Combined with a culture of risk aversion in government agencies (Chapter 4), this can make it particularly hard for Māori to get government support for new initiatives in social services. An example of such scrutiny is the Auditor-General's report on Whānau Ora, which received close media attention (OAG, 2015).

Measurements of reduction in future fiscal liability create a powerful argument for the benefits of programmes that accrue to all taxpayers – regardless of who is leading the initiative. Measurements of future liability should span agency silos including health, justice and social development (Chapter 9). If this were done, Māori may find it more possible to negotiate for support from government where previously individual agencies would refuse.

Data analytics, indigenous knowledge and research may hold some particular promise for Māori to achieve greater involvement in commissioning. This is because a broad investment approach opens up new possibilities for negotiating transfers of responsibility and funding from government to Māori organisations.

Part Three: Making it happen

The recommendations set out in Part Two would improve the performance of the social services system. Yet implementing the recommendations will require a significant shift from the status quo. It will be necessary to proceed with care, at the right pace, with the right degree of consultation, and with the right sequencing. It will also be important to learn about what works along the way and make appropriate adjustments. The question is how best to make reform happen?

Part Three describes a pathway for implementing the Commission's recommended reforms to the social services system.

Chapter 14 proposes the development of a coherent reform plan and provides an indicative timeline for implementing the recommendations set out in Part Two. The chapter then examines how to turn this plan into action, and outlines further measures to encourage continuous improvement in the social services system.

Chapter 15 supports the case for change by outlining how the recommendations in this report will move the social services system closer to the well-functioning system described in Chapter 1. The chapter illustrates the benefits of system improvement for clients and for the broader society and economy. It then paints a picture of what implementing the Commission's recommendations would mean for Charlie and Denise – two of the fictional clients introduced in the Overview.

14 Implementation

Key points

- The Commission's recommendations should achieve a step up in performance of the social services system. Their implementation will require leadership from the Government, through a small Ministerial Committee for Social Services Reform. The committee should create a reform plan, oversee its implementation and adjust it in the light of experience.
- The Government should establish a Transition Office to focus the effort of its agencies and to support the Ministerial Committee. The Transition Office would:
  - help the Ministerial Committee to develop, refine and improve a reform plan;
  - help the Ministerial Committee identify tasks and the appropriate allocation of responsibilities for implementation;
  - develop and implement a model to improve outcomes for the most disadvantaged New Zealanders;
  - oversee implementation of reform, and publish reports on progress;
  - ensure that there is adequate capability, advice and design guidance for agencies engaged in commissioning; and
  - encourage innovation and continuous system improvement.
- The Government should also establish an Advisory Board of system participants to provide the Ministerial Committee with independent expert advice on system design and transition.
- The Social Sector Board (SSB) should retain responsibility for ongoing stewardship functions requiring coordination across social services agencies such as data sharing, setting standards, improving commissioning and data-analytical capability, and delivery of the Better Public Services results.
- The Transition Office should develop a memorandum of understanding with the SSB, setting out their respective roles and how they will work together.
- The Social Policy and Evaluation Research Unit (Superu) should have an enhanced role as an independent body responsible for monitoring, research and evaluation of the performance of the social services system.
- The Government should implement a rolling review of existing social services programmes against specified criteria.
- The Government should seek beneficial opportunities to undertake joint benchmarking of social services, including their cost effectiveness, such as through participating in the Australian *Report on Government Services*.

The Commission's recommendations should achieve a step up in performance of the social services system. However, their implementation will require significant shifts in roles and behaviour by ministers, agencies, providers and, in some cases, clients. The question is how best to make this happen?

Implementing the Commission's recommendations will require leadership from the Government. While a number of the recommendations devolve control over relevant decisions further from central decision

makers and closer to the clients, such devolution needs to be supported by change at the centre. This chapter is concerned with the best ways to encourage and implement such change.

This report has been written at a time when the Government is pushing ahead on several fronts to improve the effectiveness of social services. Two examples are the appointment of an external Expert Review Panel for modernising Child, Youth and Family (CYF), and the application of social-investment principles in the 2015 and 2016 budgets.[128]

The Commission's recommendations go further than the Government's current agenda, yet move in broadly the same direction. The recommendations, if implemented, would constitute a significant long-term reform agenda that must be led by ministers and senior public servants, working with social services agencies and providers.

The report sets out a direction for change rather than detailed engineering plans. The details of how to make improvements cannot all be known in advance, but will evolve with experience. That is why this report stresses the importance of creating an effective learning system that generates new approaches, spreads those that work, and amends or phases out those that do not (Chapter 7).

The recommendations require people in the social services system to take on new roles and adopt new perspectives:

> The system will need to change some of its DNA. Old customs, competencies, power structures, assumptions, and jobs will need to change. This is why these [kinds] of changes generally do not happen spontaneously from within the status quo. Everybody in positions of power within the status quo has a vested interest in their competency in managing the status quo. Why would I let go of the data? Give up my monopoly? Learn new tricks? (Mansell, 2015, p. 21)

Effective reform is more likely if:

- there is an effective plan for change (section 14.1), with specified short-, medium- and long-term deliverables (section 14.2);
- responsibility and authority for implementation are clearly allocated, with the lead ministers receiving effective support from an office that would manage and drive implementation (section 14.3); and
- measures are implemented that would help to sustain reform and build in incentives for continuous improvement (section 14.4).

14.1 A coherent reform plan

An early task for the Government is to develop a reform plan for implementing those recommendations that it accepts. This plan should provide coherence and direction, and establish a framework for purposeful action.

The reform plan should be developed quickly, but have a long-term focus. Too many past efforts to improve social services have suffered from a short-term focus that has hindered sustainable improvement:

> Government, however, has to take responsibility for starting and then failing to follow through on so many strategies (usually because of a change of minister and/or administration). Whatever the reason, the lack of a long term sustainable strategy is inimical to partnerships and working with communities because it meant all too often the government side had no lasting goals, no operating principles and no security that it would not all change. (John Angus, sub. 109, p. 11)

The reform plan's time horizon needs to be long enough to provide sufficient time for implementation; to provide confidence that the plan is working as intended; to enable devolution and to establish system stewardship.

[128] See Minister for Social Development (2015b) and Minister of Finance (2015).

A long horizon does not mean that delivery only occurs in the long term. Rather, the plan should be divided into short (one year), medium (two to four years) and long (beyond four years) time horizons, with tasks and deliverables within each period.

Section 14.2 indicates the possible timing of some deliverables. These are suggestions only: the sequence and pace of implementation is a matter for government. Deliverables will be guided by considerations that may pull in different directions, such as:

- building the momentum for change by providing early demonstrable benefits;
- addressing pressing social problems;
- allowing sufficient time for experimentation and trials, and to evaluate the results of these trials;
- engaging with relevant communities about changes that affect them; and
- carefully planning institutional changes that may have long-term consequences that are difficult to reverse.

As part of the reform plan, the Government should work through how to align Whānau Ora with the new arrangements in such a way as to preserve its kaupapa Māori orientation and building on its strengths (Chapter 13).

14.2 An indicative reform timeline

This report expects better availability and use of data to enable the current, predominantly top-down approach to organising social services to shift towards a more devolved approach. Service providers would have more freedom, but more responsibility for improving outcomes. The Government would still set system goals and standards; develop a comprehensive data network; monitor performance and overall progress against outcomes; oversee evaluation; and promote changes suggested by evaluations.

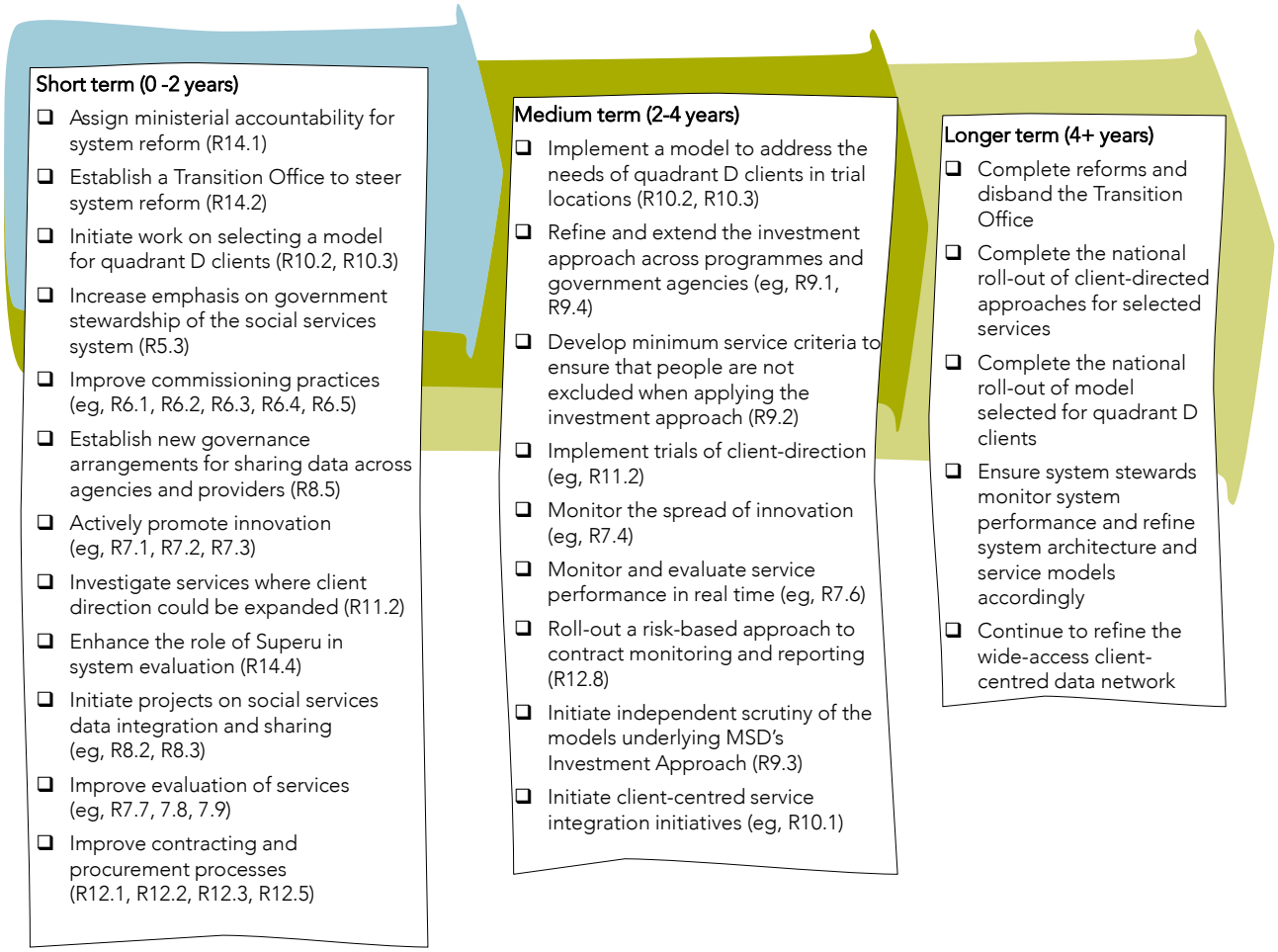
The large number of clients with sufficient capacity and motivation will increasingly have their own budgets and the ability to choose providers. This will empower them, reduce service fragmentation and increase pressure on service providers to improve their performance. More public money will be spent on services that clients value, and less on those they do not. Giving clients choice and control provides a mechanism through which providers can experiment with, and learn from, trying different approaches to service delivery.

For the most disadvantaged New Zealanders – the group for whom the current system is largely failing – the Commission is recommending that a different model should be developed for delivering social services. In the four-quadrant diagram introduced in Chapter 2, these people tend to be in the complex needs and low-capacity quadrant (ie, quadrant D). The costs to these people, their families and wider society are high.

The Commission has not developed the details of the approach for addressing the needs of the most disadvantaged New Zealanders. Rather, it recommends a major development effort to decide, first, which one of two models (a Better Lives agency or District Health and Social Boards), or a variant of those models, would work most effectively, and then to develop its details (Chapter 10). Under either model, responsibility for commissioning services would move much closer to clients. Such a shift involves devolution of decision-making responsibility and funding that presently sits with government agencies.

This development effort should not unnecessarily delay implementation of the Commission's other recommendations. The following sets out an indicative timeline for the reform plan, listing some important tasks and many of this report's recommendations (Figure 14.1).

Figure 14.1 Indicative timeline for the reform plan



14.3 Turning the reform plan into action

The Commission has sought to minimise institutional change, but envisages that some change and new organisations would be needed.

A Ministerial Committee for Social Services Reform

Implementing the Commission's recommendations will take several years. Ministers will need to take responsibility for defining and prioritising the Government's objectives for reforming the social services system. Drawing on advice, ministers need to set the direction of reform and to adjust it in the light of experience.

More specifically, ministers will need to:

- translate the Commission's recommendations into specific tasks, responsibilities and actions;
- allocate tasks to those who are best placed to carry them out;
- ensure that those who are allocated tasks have the capability, authority and incentives to carry them out;
- prioritise tasks – depending on factors such as whether they are one-off or need to be supported by complementary measures, or require earlier actions to be taken before they can be effective;
- monitor whether tasks have been completed;
- identify risks and resolve issues;
- take action to address risks or to remove barriers to progressing reform; and
- evaluate how well changes are working, and adjust the reform plan as necessary.

Which ministers?

The ministers leading implementation need to collectively adopt a whole-of-system perspective, have a deep knowledge of particular social services, and be willing to move away from the status quo.

One option is to allocate responsibility to the social services portfolio ministers, supported by their agencies. However, ministers and their agencies typically focus on their particular portfolio roles, rather than looking across the social services system as a whole (Chapter 4). Yet this broader perspective will be required. Relying on individual agencies to achieve reforms independently or even with normal inter-agency cooperation is unlikely to succeed.

A second option is to allocate responsibility to a central agency minister, with a system-wide perspective. However, excluding portfolio ministers and their agencies from developing the reform plan would weaken their commitment to change and would not draw on the knowledge of those who work within the system. Effective implementation of a major system-wide reform programme is unlikely to be achieved by an approach driven exclusively by a central agency.

A better option would be to allocate responsibility to a small committee of ministers drawn from relevant social services and central portfolios, to encourage a broader perspective while also taking account of portfolio responsibilities. The Cabinet Social Policy Committee already exists. However, this has 20 ministers, and is not well suited to driving a big reform programme. Rather, what is needed is a *Ministerial Committee for Social Services Reform*, comprising a smaller, cohesive group of ministers. The group would include the Minister of Finance, the Minister of State Services, and the senior Ministers holding social services portfolios. The Social Sector Priorities Ministers group may be a suitable starting point.

The major task of this committee is to lead reform of the social services system, through developing and overseeing a reform plan.

R14.1 A small and cohesive *Ministerial Committee for Social Services Reform,* drawn from relevant social services and central portfolios, should be responsible for leading the Government's reform of the social services system.

A Transition Office

The Commission is recommending the establishment of a Transition Office to provide support to the Ministerial Committee for Social Services Reform. The Transition Office should sit within a central agency or other location that allows it to be independent of core social services agencies, yet still influential.

Roles

The Government should provide the Transition Office with a clear mandate to assist the Ministerial Committee to achieve the Government's objectives for reforming the social services system. Its main tasks include:

- helping ministers develop the reform plan; and guiding its implementation;
- providing a strong, influential centre of leadership;
- developing a different model for improving outcomes for the most disadvantaged New Zealanders;
- publishing reports on progress;
- providing advice and guidance, and overseeing the lifting of capability for agencies engaged in commissioning; and
- encouraging innovation and continuous improvement across the system.

The Ministerial Committee should clearly indicate its priorities in implanting the reform plan, and the Transition Office should be responsive to those priorities. However, the Commission recommends that developing a new approach to engaging with and delivering services for disadvantaged New Zealanders (as

outlined in Chapter 10) should receive high priority from ministers, and that the Transition Office should be tasked with leading this development.

Working with and through others

The Transition Office would not be large, but it would need to be influential and highly reputable. It would need to work cooperatively with other organisations that would develop and implement reforms. In particular, portfolio agencies would remain responsible for implementing system-wide reforms as they affect particular social services.

The Transition Office could be responsible for ensuring that system-wide requirements and frameworks are developed, and for monitoring that agencies implement such requirements and frameworks at the portfolio level. The Transition Office might aggregate any feedback from agencies about ways that this initiative could be improved for the system as a whole. It would need to work closely with the SSB, which could take on responsibility for part of this task, provided that the division of responsibilities is clear.

The development of a different model for meeting the needs of the most disadvantaged would require particularly close collaboration between the Transition Office and portfolio agencies.

Setting up new entities, such as a Better Lives agency, requires legislation, recruitment, budget allocations and other supporting infrastructure. The Transition Office would shepherd these entities into existence, help them get up to speed and monitor their progress.

A limited lifetime

The Transition Office would only exist until the reform programme was completed. Yet completion will not be obvious, because there will always be opportunities for further improvement. To make it clear that the Transition Office has a limited lifetime, the Government should specify, at time of establishment, a date when the Transition Office will close.

One of the Transition Office's final tasks should be to provide advice about the best arrangements for encouraging ongoing improvement to the social services system after the reform programme has ended and the Transition Office has closed.

R14.2

The Government should establish a Transition Office to:

- help the Ministerial Committee to develop, refine and improve a reform plan;
- help the Ministerial Committee identify tasks and the appropriate allocation of responsibilities for implementation;
- develop and implement a model that would improve outcomes for the most disadvantaged New Zealanders;
- oversee implementation of reform, and publish reports on progress;
- ensure that there is adequate capability, advice and design guidance for agencies engaged in commissioning; and
- encourage innovation and continuous system improvement.

R14.3

Developing a new approach for engaging with and delivering services for disadvantaged New Zealanders (as outlined in Chapter 10) should receive high priority from the Ministerial Committee in the reform plan. The Transition Office should be tasked with leading this development.

An expanded Superu: System-wide monitoring, research and evaluation

Collecting evidence about what works will play a vital role in guiding the development and fine-tuning of initiatives for improving the social services system. And after the reforms have been implemented, there is an ongoing role for evaluation of how well they are working and in what ways they could be improved to achieve the Government's objectives. This is an important part of system stewardship.

Hence there is a need for an organisation to undertake system-wide monitoring, research and evaluation, working closely with the Transition Office during the implementation of the reform programme. Further, there is an ongoing need for assessing and reporting on system performance, and commissioning or undertaking evaluations of individual programmes.

Superu already has a role to increase the use of evidence so people can make better decisions about social services (Chapter 7). An autonomous Crown entity located within MSD, Superu operates under the Families Commission Act 2003 (Box 14.1).

Box 14.1 **Superu's current functions**

Superu's purpose is to "to increase the use of evidence by people across the social sector so that they can make better decisions and so improve the lives of New Zealanders, New Zealand's communities, families and whānau".

Superu's functions are specified in the Families Commission Act 2003. One of its two main functions is to monitor and evaluate programmes and interventions in the social sector, and to provide social science research into key issues, programmes, and interventions across that sector. It does this by:

- identifying evidence and research that will assist in determining or achieving the Government's policies and priorities in the social sector;
- commissioning or managing contracts for social science research in the social sector on behalf of the Government and others;
- setting standards and specifying best practice for monitoring and evaluating programmes and interventions in the social sector; and
- establishing and maintaining a database of social science research undertaken by or on behalf of the Government.

Superu's other main function is to advocate for the interests of families generally.

Source: Superu, 2015a.

Superu is well-positioned to undertake an expanded research and evaluation role in the social services system. It is already performing this role to an extent. Legislative change may be required to expand Superu's functions to include monitoring, researching and evaluating the *performance* of the social services system.[129] The Government should investigate whether legislative change is needed and initiate any required amendments.

As a research and evaluation agency, it is particularly important that Superu is independent, with no conflicts of interest, and widely respected for its competence. The Government should therefore consider whether there are unnecessary constraints on Superu's independence. For example, its current status and location within MSD should be examined and changed if necessary.

[129] The Commission has not sought legal advice on this question.

R14.4 The Government should enhance the role of Superu, so that it can act as an effective independent agency responsible for ongoing monitoring, researching and evaluating the performance of the social services system.

The Government should investigate whether legislative change is needed to support this expanded purpose and initiate any required amendments.

An Advisory Board

Reform of social services needs to be informed by perspectives from outside government, including providers, their clients and independent experts. This is particularly important given that some of the Commission's recommendations involve role changes that the public service may find uncomfortable.

The Welfare Working Group, made up of expert academics, employers and community leaders, and supported by international experts, was established by the Government in 2010 to advise about ways to reduce long-term benefit dependency for people of working age. This external advice and its public availability, and the continuation of transparent external advice through the Work and Income Board, have been instrumental in achieving the wide-reaching changes contained in the Investment Approach (Chapter 3). Box 14.2 describes two other examples of ministerial advisory committees that include members from outside government.

Box 14.2 **Ministerial advisory committees**

Two recent examples of ministerial advisory committees include members from outside government.

Modernising Child, Youth and Family Expert Panel

The Minister of Social Development established a Panel to oversee the development and implementation of the Modernising Child, Youth and Family (CYF) Business Case. The Minister received the first draft of the CYF Business Case in December 2014, and considered that it was a good starting point but needed development. The Minister decided to establish an Expert Panel to inject fresh thinking into the development of the Business Case, increase external expertise, and provide her with more assurance about the development and implementation of the Business Case. The Panel is supported by an MSD-based secretariat.

Biosecurity Ministerial Advisory Committee

This committee provides the Minister for Biosecurity with independent advice on the performance of the overall biosecurity system. Its roles include helping the Minister to identify improvement opportunities by adopting a whole-of-system approach and to advise the Minister and department on strategies and policies covering the end-to-end biosecurity system.

Source: Office of the Minister of Social Development, 2015; Ministry for Primary Industries, 2010.

A similar expert group would help to maintain the momentum of the reform plan, by providing a source of independent advice to the Ministerial Committee for Social Services Reform. Such a group can act as a sounding board for ministers, and provide free and frank advice about the design of the system and progress towards implementation. It would also provide a channel for unfiltered information from non-government participants directly to ministers.

The Commission recommends establishing an Advisory Board. The Board would need support from the Transition Office, but should report to the Ministerial Committee.

R14.5 The Government should establish an Advisory Board to provide the Ministerial Committee with independent expert advice, from a wide range of system participants, about the design of the system and progress towards implementation.

The lifetime of the Advisory Board is envisaged to be similar to that of the Transition Office.

Reviewing reform plan progress

Reform plans can become bogged down in details, and the public can lose faith in Government commitments for reform. Credible, independent reporting on progress can assist with maintaining momentum.

The Transition Office should report publicly on reform plan progress every six months. It should assess progress towards:

- implementing the reform plan, with particular attention to developing a different model to deliver services to the most disadvantaged;
- evaluating existing programmes;
- refreshing or removing programmes that evaluation has shown to be defective;
- encouraging service integration where appropriate;
- facilitating worthwhile experimentation, learning and innovation;
- devolving decision making; and
- avoiding undue focus on short-term decisions.

Frequent publication of such reports would help to build the community's understanding of the benefits of reforming the social services system, and to discourage watering down of change by successive governments.

The Advisory Board should provide independent commentary on each progress report.

R14.6 The Transition Office should report publicly on reform plan progress every six months. Each progress report should be accompanied by an independent commentary from the Advisory Board.

New institutions and existing arrangements

The roles of the Ministerial Committee for Social Services Reform, Transition Office and Superu need to be clear, and separate from the role of the SSB.

The SSB should retain responsibility for ongoing stewardship functions requiring coordination across agencies such as data sharing, setting standards, improving commissioning and data-analytical capability, and for delivery of the Better Public Services results. To avoid doubt, the SSB and the Transition Office should develop a memorandum of understanding setting out their respective roles, how they will work together, and how they will resolve any uncertainties about their roles.

Superu should work closely with the Transition Office during the implementation period. Subsequently Superu would have a distinct role from SSB – monitoring and evaluating the performance of the social services system.

R14.7 The Social Sector Board and the Transition Office should develop a memorandum of understanding setting out their respective roles, how they will work together, and how they will resolve any uncertainties about their respective roles.

The Ministerial Committee and the Transition Office would be established in a crowded space of cross-portfolio committees of officials and Ministers (Table 5.2 in Chapter 5). The scope of the majority of these committees is restricted to specific policy programmes or issues. Two committees (Cross-agency Work in the

social sector, and Social Sector Priorities) have a broader remit, and may overlap with the Commission's recommended Ministerial Committee. However, the membership of these committees is much larger than the Commission envisages for the Ministerial Committee.

The Commission expects that the Ministerial Committee and the Transition Office would have distinct roles. As part of these new arrangements, the Government should review the existing social-sector ministerial committees and cross-agency coordination groups, with a view to removing duplication of functions and streamlining them.

R14.8 In establishing the Ministerial Committee for Social Services Reform, the Government should review existing social-sector ministerial committees with the aim of removing duplication and streamlining their operation.

What would be the budgetary cost?

Some additional funding will be required to fund the Transition Office and the projects it will commission. Initiatives such as the comprehensive data network will also require capital spending.

However, the long-term aim is to spend resources more effectively and, through initiatives such as increased use of the investment approach, to improve returns in the form of lower future budgetary costs and better outcomes for the users of social services. The estimated lifetime cost of delivering social services to the 10 000 most at-risk New Zealanders is $6.5 billion. This indicates scope for very large savings of taxpayer funds if the recommendations in this report are successful in helping disadvantaged New Zealanders turn their lives around.

The Commission believes that the value of its recommendations does not depend on the level of expenditure that governments choose to devote to social services.

14.4 Further measures to encourage continuous improvement

This section discusses two further measures that would encourage continuous improvement in the social services system.

Reviewing social services programmes

Chapter 2 described a general reluctance to end programmes that are known to be ineffective or less effective than alternatives, or in some case are of unknown effectiveness. Providers and clients of these programmes may resist changes if they expect to lose from such changes, even if the change brings about better ways to deliver a service.

The Government could counter resistance to change by initiating comprehensive and transparent evaluations of existing social services programmes against specified criteria, which might include whether each programme:

- has clearly specified, relevant, objective and desirable outcomes;
- is achieving its objectives and outcomes;
- is achieving a satisfactory return on investment;
- shows evidence of innovation in service delivery through the programme;
- is appropriately integrated with other programmes; and
- has already been evaluated.

MSD has started this process and developed a three-year evaluation schedule as part of its Community Investment Strategy (Chapter 7).

Part of the context for these reviews is the development of a new model for improving outcomes for the most disadvantaged New Zealanders (ie, quadrant D). Single and cross-agency programmes currently targeted at these people may be most appropriately moved to the new arrangements.

Given the large number of programmes funded across government, the cost of reviewing them all would be substantial. But there are significant, perhaps more hidden, costs of keeping ineffectual programmes in place. The Government should initiate a multi-year review of its main social services programmes against clearly specified evaluation criteria.

R14.9 The Government should initiate a multi-year review of the major social services programmes against clearly specified evaluation criteria. Reviews should be independently assessed by Superu and published.

Benchmarking performance

Benchmarking is a way of encouraging performance improvement.

In Australia, the Australian Productivity Commission (APC) undertakes performance benchmarking of government services through the *Report on Government Services* (ROGS), which compares the efficiency and effectiveness of Commonwealth and State/Territory Government services such as education, health, justice, emergency management, community services and housing.

MSD produced *The Social Report* yearly until 2010, and is expected to produce another report in 2015. This reported 43 indicators in 10 key policy areas such as health, economic standard of living, and safety and social connectedness (MSD, 2010). The ROGS contains similar information to *The Social Report*, but in addition contains extensive and more fine-grained indicators of service performance.

The Families Commission Act 2003 requires Superu to "prepare and publish an annual Families Status Report that measures and monitors the well-being of New Zealand families" (s 8(1)(ba)). These reports complement *The Social Report*.

In their 2012 joint study *Strengthening trans-Tasman economic relations,* the Australian and New Zealand Productivity Commissions recommended that the Australian and New Zealand Governments should determine an appropriate approach for New Zealand to participate in the ROGS (APC & NZPC, 2012). Such participation would strengthen incentives to improve the performance of benchmarked services.

R14.10 The Government should seek opportunities to undertake benchmarking of social services, such as through participating in the Australian *Report on Government Services*.

15 The size of the prize

Key points

- The recommendations in this report can move the social services system closer to the well-functioning system described in Chapter 1.
- For mainstream clients of the social services system, moving closer to a well-functioning system would mean less time wasted on bureaucratic processes, and greater information about service options and the quality of services delivered by different providers.
- For clients with complex needs that are both able and motivated to manage their services (quadrant C), it means greater freedom to determine who provides services and when, where and how services are delivered.[130]
- For clients with complex needs that are not in a position to manage their services (quadrant D), it means bringing decision making closer to clients and providing greater assistance to prioritise, sequence and select services.
- Research predicts that government will spend $6.5 billion on the 10 000 "highest-cost clients" over their lifetimes and that about 75% of total liability in the benefit system relates to people who received a benefit before the age of 20.
- While all clients would benefit from the measures outlined in this report, the Commission sees big opportunities to improve the lives of New Zealand's most disadvantaged individuals and families.
- For New Zealanders, moving closer to a well-functioning system would create more value from the tens of billions of dollars that the Government spends on social services each year, greater confidence that services will be available when they need them, and more assurance that the system is meeting their expectations around access and care for the most disadvantaged.
- Benefits to clients commonly spill over to the wider society. More education correlates with lower crime rates and better health. Reductions in mental illness, addictions and addictive behaviour, family violence and child abuse, and re-offending create the wider benefits of a safer, healthier and happier society. Reducing disadvantage and under-achievement through effective social services will promote a society that is more cohesive and connected.
- For service providers, moving closer to a well-functioning system would improve clarity and certainty around government funding, reduce money spent on government processes and allow greater flexibility to innovate, and tailor services to client needs.
- For social services agencies, moving closer to a well-functioning system would mean greater ability to demonstrate the value of services, and greater clarity about which services are effective. For the Government, it would mean a better understanding of its role as system steward and a greater ability to demonstrate its achievements.

This chapter aims to provide insights into the type and magnitude of benefits that reform can deliver. The chapter begins by discussing what moving closer to a well-functioning system would mean for different participants in the system. It then illustrates the type of benefits, and some indications of orders of magnitude, that reform could bring.

[130] See Chapter 2 for a description of the quadrants.

15.1 A system that meets the needs of all participants

This inquiry seeks to identify measures that will lead to a well-functioning social services system. The report makes a number of findings and recommendations on how to achieve this goal. The key themes of the findings and recommendations are to:

- improve system stewardship;
- improve commissioning and contracting;
- make better use of data and create a system that learns and innovates;
- empower the client; and
- introduce a new deal for the most disadvantaged New Zealanders.

If implemented well, the recommendations in this report can move the social services system closer to the well-functioning system set out in Chapter 1.

For New Zealanders this would mean a system that creates more value from the tens of billions of dollars that the Government spends on social services each year. It would mean greater confidence that services will be available when they need them. And it would mean greater assurance that the system is meeting their expectations around access and the effective care of society's most disadvantaged.

For clients with complex needs, moving closer to a well-functioning system would mean being able to access services that are better matched to their individual circumstances. For clients with complex needs that are both able and motivated to manage their services (quadrant C), it would mean greater freedom to determine who provides services and when, where and how services are delivered. For those who require additional help to access and coordinate services (quadrant D), it would mean the people providing assistance will have the authority and budget to deliver services in a timely and effective way. And it would mean less time wasted by clients and providers on multiple bureaucratic processes.

For service providers, moving closer to a well-functioning system would mean greater clarity and certainty around government funding. It would mean less money spent on government processes and greater flexibility to tailor services to meet the needs of clients. And it would mean more scope for innovation and greater rewards for innovation.

For government social services agencies, moving closer to a well-functioning system would mean being better able to deliver needed services to clients. It would mean being able to show that the system is operating efficiently, and that the agencies are creating value from the use of public funds. Agencies would be better able to focus their efforts on high-value areas due to greater clarity around the service interventions that work and those that do not. And it would mean government agencies have a better view of the performance of their contractors.

Finally, for the Government, moving closer to a well-functioning system would mean a better understanding of its role as system steward, and being better able to demonstrate its achievements to voters and Parliament. It would mean a reduction in political risk caused by under-performing services. And it would mean more transparency around the relative returns from different uses of public money.

15.2 Illustrating the benefits of system improvement

This section illustrates the benefits of system improvement for clients and for the broader society and economy.

Benefits to clients

The social services system ultimately exists to improve the wellbeing of New Zealanders. There is good reason to believe that improvements in the social services system can have a positive impact on client wellbeing. Studies on wellbeing have repeatedly shown:

- the highly negative impact of unemployment on a person's life satisfaction (Winkelman & Winkelman, 1998; Lucas et al., 2004; Blanchflower & Oswald, 2011; Brown, Woolf & Smith, 2012);
- the positive impacts of good physical and psychological health on overall life satisfaction (Diener et al., 1999; Dolan, Peasgood & White, 2008; Diener & Chan, 2011; Shields & Wheatley Price, 2005; Brown, Woolf & Smith, 2012);
- the strong association between social connections and life satisfaction (Kahneman & Kruger, 2006; Helliwell, 2008; Helliwell & Wang, 2011); and
- the detrimental impact of living in an unsafe or deprived area on life satisfaction (Ferrer-i-Carbonell & Gowdy, 2007; Lelkes, 2006; Shields & Wheatley Price, 2005).

Benefits to society and the economy

The current system is not well suited to serving clients with multiple and complex needs (quadrants C and D). The Commission believes large gains can be made by improving the life outlook for these people. Chapter 2 cites research predicting that government will spend $6.5 billion on the 10 000 "highest-cost clients" over their lifetimes. Improving the system so that it provides early, adequate and effective assistance to these people (and others who suffer serious deprivation and disadvantage) is likely to yield high social returns.

Benefits to clients themselves can be considerable. For example, access to the right services may enable a young person to stay in school. Empirical studies typically show that, on average, an additional year of education increases a person's wages by about 5% to 15% (New Zealand Treasury, 2004). So the young person receives personal benefits in the form of a better job and higher wages.

In addition, benefits to clients commonly spill over to others. Studies have shown a strong correlation between education levels and broader social benefits such as lower crime rates. Henry et al. (1999) found that the longer male students stay in school past the minimum leaving age of 15, the lower their chances of criminal behaviour in young adulthood. A more recent study in Sweden found that one additional year of schooling decreases the likelihood of men being convicted of a crime by 6.7% and incarcerated by 15.5% (Hjalmarsson, Holmund & Lindquist, 2014). In the United Kingdom, Machin, Marie and Vujić (2010) estimated that a 10% increase in the age at which people leave school would lower the number of convictions for property-related crimes (per 1 000 people) by 2.1%.

Studies also illustrate a positive relationship between education and health (Wilson, 2001; Oreopoulos, 2003; Lleras-Muney, 2002). The New Zealand Treasury (2004) concluded:

> … the evidence from a wide range of longitudinal and cross-sectional studies in a number of countries, using different methods, different measures of health, and different control variables, indicates that better-educated people experience better health. This finding generally holds when the greater earnings of better-educated people are taken into account. (p. 20)

In addition to the personal benefits from better health, there are social benefits such as less demand on health services and less stress and anxiety for friends and family. Even though these social benefits are difficult to quantify, they are significant and important.

The reforms in this report also have the potential to bring significant economic benefits for all New Zealanders. These economic benefits broadly fall into two groups:

- improvements in the efficiency of government expenditure; and
- improvements in the stock and quality of human capital.

Improving the efficiency of government expenditure

Reform of the social services system can help increase the value derived from each dollar the Government spends on social services.

MSD's Work and Income services are a good example of the gains that are possible from adopting an "investment approach" to social services. Research indicated that targeted early intervention of specific client groups produces significant gains.

- Around 75% of total liability in the benefit system relates to people who received a benefit before the age of 20. These people also remain the most vulnerable to remaining on a benefit throughout their life.
- Almost 90% of all people receiving youth benefits were supported by a parent also on a benefit. For older clients who were not on a youth benefit (ie, aged 18 to 25), almost 75% were supported by a parent on a benefit (Edwards & Judd, 2014).

Similarly, analysis of data from the Christchurch Health and Development Study found that youth are twice as likely to be welfare dependent at age 21 if they are raised in a semi-skilled or unskilled family. And they are three times as likely to be welfare dependent if they leave school without qualifications (Seth-Purdie, 2000).

A well-functioning system would see government funding targeted at areas with a high return on investment, improving the wellbeing of clients, the efficiency of government spending and also producing wider social benefits.

Improvements in human capital

Many social services have a direct impact on the accumulation of skills, knowledge and capabilities of New Zealand's workforce; that is, an impact on the level of human capital within the economy. Human capital is an important driver of labour productivity, which in turn is a key driver of long-run economic growth and societal wellbeing.

Health and education are two of the most important aspects of human capital. In general, the healthier and better educated people are, the greater their participation in the workforce and the more productive they will be at their jobs. It is worth noting that over the past two decades New Zealand has experienced slow labour productivity growth compared to other OECD countries (NZPC, 2013b).

There is evidence too that increasing human capital for people at the lower end of the income distribution will have a positive effect on economic growth and wellbeing. For example, the London School of Economics Growth Commission (2013) described the United Kingdom's "long tail of poorly performing schools and pupils" as constituting a "waste of human resources on a grand scale". Adding that the situation "holds back economic opportunities and is detrimental to growth" (p. 17).

Similarly, the New Zealand Treasury (2012) noted New Zealand's "wide distribution of educational achievement" (p. 1) and that the socio-economic background of New Zealand students "exerts a much larger influence on their achievement than in most other OECD countries" (p. 2). They also estimated the benefits of lifting overall achievement:

> [I]f overall student achievement could be lifted by 25 PISA points (putting New Zealand with the top performers in the OECD), GDP would be expected to be higher than it otherwise would be by 3-15% by 2070. This is a large growth impact from a single contributing factor. (p. 2)

Moving towards a well-functioning system can therefore help realise the economic benefits of increasing the number of people in jobs, the quality of those jobs and labour productivity.

15.3 What the world would look like for Denise and Charlie?

What would the Commission's recommendations mean for Charlie and Denise – the fictional clients introduced in the Overview?

This report argues that our current system is failing those with complex needs – particularly those who lack the capacity to navigate their way through the current maze of government agencies and processes. It is these people who desperately need a new approach to service delivery.

Recall that Denise is a mother of two children, aged four and six. She has a violent partner with a history of alcohol and drug dependence. Denise and her children turn up late one night at Auckland City Mission in a

distressed state, she with bruises and a black eye and no access to funds, the younger child clearly ill with a bad chest infection. The Mission provides the three with emergency shelter for the night.

In the morning, the Mission takes Denise to the local service centre for the Better Lives agency (or DHSB) where she meets Sandra – her system navigator. It is Sandra's responsibility to work with Denise to establish the services she requires and how these services are best supplied.

Sandra knows the potential for poor life outcomes for Denise and her children. As an experienced professional, she saw it many times back in the days when clients like Denise would bounce from agency to agency trying to access services. Many found the process humiliating and gave up. But they usually turned up again somewhere else in the system – often back at the City Mission or the emergency ward. The worst part was that the kids got stuck in a cycle of poverty, violence and dropping out of school. She had seen many go off the rails and end up in gangs or prison. That was back when the system did not recognise the human and social cost of not "investing" in people like Denise.

Sandra listens to Denise's story and takes her details. It will be the only time that Denise will have to provide this information as Sandra has the budget and authority to assess Denise's situation and grant her access to the services she needs. Denise gives Sandra permission to view her personal service history from the national database. This will help Sandra better understand Denise's circumstances and the services likely to work for her.

Sandra arranges for Denise and her family to move into temporary housing until permanent state housing becomes available. She enrols the family with the local primary healthcare provider and makes an appointment for Denise's youngest child to see the doctor. Sandra arranges transport to the appointment.

Denise decides that to turn her life around she needs to be financially independent. But this will take time. Denise needs to access an unemployment benefit until she gets a job. Sandra sends the electronic paperwork to Work and Income. Because the application is coming from the Better Lives agency, it is fast tracked – Denise should have her first payment next week. To tide Denise over, Sandra gives her a payment card with enough funds for groceries for a week or so.

Denise is interested in getting a job in retail, but first she will need some vocational training. Sandra and Denise discuss the type of training Denise thinks would suit her. They decide that a part-time course on Mondays, Tuesdays and Fridays would be best because that way Denise's youngest child could attend an early learning centre. Sandra knows a local centre with a new programme aimed at children who have been exposed to violence. She also links Sandra up with a community support group. Denise thinks her mum will help out by looking after the kids on the evenings she meets the group. If not, Sandra says she can arrange a sitter.

Denise is concerned that her older child is already slipping behind his classmates, so Sandra contacts the school to arrange an independent assessment of the boy's progress. If he has slipped behind, additional resources will be made available to the school so they can provide extra tuition. The school will monitor the boy's progress to ensure he is getting the assistance he needs. They will send a regular report to Denise who has given the school permission to share the reports with Sandra.

Sandra will be working alongside Denise over the coming months to help her get back on her feet. She agrees to "check in" with Denise in three days and puts her phone number in Denise's mobile ("just in case there are any problems").

Sandra and Denise shake hands and Denise leaves the Wellbeing Office. Denise gets the feeling that Sandra really understands her situation, and is someone she can trust. Denise is still worried about the future, but she can now see a pathway to a better life for her and her children.

Meanwhile….

In another part of New Zealand, Charlie is getting ready to go the theatre to see the local drama company's production of *Mamma Mia* (he has always loved Abba!). Recall that Charlie is an intelligent, educated 43-year old in a wheelchair due to his muscular dystrophy.

Charlie dreamt of being a regular "theatre goer" for some time but, until recently, restrictions on how he used his support hours meant he was rarely able to go. Today, Charlie is going to the theatre with his friend Gary (also an Abba fan) who he met through work.

The new system has given Charlie even greater choice and control over the services he receives. His government funds are now pooled into a single budget. And government agencies have a much better understanding of, and respect for, the things that really matter to him. People with expert knowledge of muscular dystrophy now conduct his periodic needs assessments (previously it was a bit "hit or miss").

Charlie has worked with his family and an Independent Facilitator to develop a personal plan that sets out his vision for a good life. He has established a great team of people to help him achieve his vision. He likes and trusts them. And they like and trust him.

Charlie employs two people directly (part-time) – they have been with him for the past three years. While he could employ more, he finds the administration a bit of a chore. Even so, he takes his responsibility as an employer seriously and works hard to ensure his "staff" have a clear job description, good wages and a safe working environment. Before Charlie decided to employ someone, he attended a government-sponsored course that helped him understand his duties as an employer and how to be a good boss.

For some services, Charlie uses providers contracted by government to deliver services in his local area. Mostly this involves help with things like shopping and cooking meals. He has also used them to do modifications to the house he shares with his sister. The contracts are more flexible than under the old system, so Charlie can usually work with the provider to get the services he wants.

Overall, Charlie feels the new system will enable him to reach his potential and enjoy a good life.

15.4 Significant economic and social gains

The measures outlined in this report have the potential to improve the efficiency and effectiveness of New Zealand's social services system, in turn raising the wellbeing of clients and of citizens more generally. The complex nature of social services makes estimating the magnitude of these benefits difficult. The Commission's judgement, supported by New Zealand and international research, is significant economic and social gains are possible. Achieving reform will require active commitment from both government and non-government leaders across the social services system. Government has an important role to play as system steward. However, for reform to succeed the Government will need to collaborate with, and to create the conditions that unleash the potential of, the many leaders across the system.

Findings and recommendations

The full set of findings and recommendations from the report are below.

Chapter 2 – Social services in New Zealand

Findings

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

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

F2.3 Clients differ according to the complexity of their needs and their capacity to access the services they require from the social services system. The Commission has found it useful to notionally place clients into four groups:

- People with relatively straightforward needs who require assistance to access services (quadrant A).
- People with relatively straightforward needs who have the capacity to access services for themselves (quadrant B).
- People with complex needs who have the capacity to access services for themselves (quadrant C).
- People with complex needs who require assistance to access services (quadrant D).

F2.4 The social services system struggles to effectively deal with multiple and inter-dependent problems encountered by the most disadvantaged New Zealanders (quadrant D). Improving services for this group offers the biggest opportunity for gains.

F2.5 The social services system often fails to create and share information about which services and interventions work well and those that do not. Overcoming this deficiency in the system is important for achieving better social outcomes from expenditure on social services.

F2.6 Better alignment and coordination of services would improve client outcomes.

F2.7 Opportunities exist to reduce the transaction costs of contracting out social services. From a provider's perspective, onerous government processes are wasteful in that they draw resources away from providing services.

F2.8 Opportunities exist to improve outcomes for individuals and achieve a higher impact from government expenditure through early intervention.

F2.9 Ministers and officials tend to focus on the flow of new social services initiatives, giving relatively little attention to management of the large stock of programmes that account for the majority of expenditure. There are likely to be significant gains from more active management of the stock of social services programmes..

F2.10 Over the past 20 years, numerous reports into the social services system have highlighted a consistent set of problems and proposed a set of similar solutions. Many of these reports have focused on symptoms of system weaknesses rather than the underlying cause of the weaknesses. Lasting improvement can only come from identifying and tackling these causes.

Chapter 3 – New ideas in New Zealand and elsewhere

Findings

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

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

F3.3 Philanthropic organisations like to take a lead in demonstrating the success of innovative approaches to the design and delivery of social services. They look to the Government to pick up and fund those approaches that prove successful.

Chapter 4 – An assessment of the social services system

Findings

F4.1 Traditional delivery of public services takes place in vertical departmental silos. Particularly for clients with multiple and complex needs (quadrants C and D) that span the responsibilities of several agencies and ministers, this causes frustration, wasteful duplication, and fragmented diagnosis and support.

F4.2 Accountability and delivery structures within government agencies place a high emphasis on managing political risks and keeping expenditure within budget. Accordingly, officials use prescriptive contracts to manage costs and risks to their specific agency.

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

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

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

F4.6 There is useful information at all "levels" of the social services system, but decision makers frequently lack important information required to make good decisions.

F4.7 Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the provider side of the market is distorted and underdeveloped in some areas.

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

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

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

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

Chapter 5 – System architecture

Findings

F5.1 Top-down control emphasises standardisation and risk management, but has significant limitations. Using more devolved approaches may achieve substantial improvements in the performance of social services.

F5.2 The case for large-scale devolution of responsibilities for social services to local government does not appear strong in New Zealand. Devolving responsibilities to local government would not resolve some significant problems of the current social services system.

F5.3 Devolution of responsibility for social services to semi-autonomous government entities can lead to better outcomes than direct ministerial control. Such entities typically have better information and incentives to make and implement decisions that maximise social returns.

F5.4 Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. Yet these mechanisms are not sufficient to provide flexibility at the interface between providers and clients. Such flexibility is required to tailor services for clients with multiple, complex problems.

F5.5 System architecture and the enabling environment require active management for social services to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall short of what is required for good system stewardship.

Recommendations

R5.1 To improve innovation and outcomes from social services the Government should make greater use of devolution in the social services system.

R5.2 The Government should take account of the role and value of volunteers as an important part of social services when drafting new legislation. It should seek to understand the consequences for volunteering of new legislation, and ensure that intended benefits are not outweighed by unintended costs.

R5.3 Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government should take responsibility for system stewardship including:

- conscious oversight of the system as a whole;
- clearly defining desired outcomes;
- monitoring overall system performance;
- prompting change when the system under-performs;
- identifying barriers to and opportunities for beneficial change, and leading the wider conversations required to achieve that change;
- setting standards and regulations;
- ensuring that data is collected, shared and used in ways that enhance system performance;
- improving capability;
- promoting an effective learning system; and
- active management of the system architecture and enabling environment.

Chapter 6 – Commissioning

Findings

F6.1 Effective commissioning is fundamental to well-functioning social services. It is a challenging task. It is not generally undertaken in New Zealand in a comprehensive, structured, consistent and effective way.

F6.2 Consultation with service providers and users during commissioning can discover information that can be used to clarify objectives and design a better service, and to build wider support for, and ownership in, a service design. But consultation can cause delay, and involves costs.

F6.3 Commissioning organisations need to define clearly why they are consulting, and design their consultation programme to satisfy that objective. They should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

F6.4 "Make versus buy" is an unhelpful question in social services. It frames the options too narrowly, and risks missing the most effective service model.

F6.5 Managed markets – in which market share is set administratively in response to provider performance – are likely to stimulate better performance and more innovation than where services are simply contracted out. Managed markets reduce the financial risks of providers, as they allow more time and opportunity to react to signals of poor performance (relative to loss of contract).

However, managed markets can be complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

F6.6 The *trust* service model capitalises on the intrinsic motivation and professional behaviour of providers. This model requires careful design to ensure sufficient peer monitoring and regulatory oversight, and works best with hard budget limits and strong client voice.

F6.7 The *shared goals* service model reflects a view that complex social problems are best addressed by the organisations and social-services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

This service model promotes common ownership of problems and goals, and so encourages constructive and integrated problem solving and creative solutions.

Organisations commissioning services using a shared goals model need to set high-level goals within a broad performance–measurement framework that is acceptable to those participating and that leaves them room to develop their own compatible, yet subsidiary, goals and measures.

F6.8 The voucher service model is in common use in New Zealand. The essential characteristic of this model is that client choice of providers drives the allocation of funds to those providers from government. This process may be largely invisible to clients. Examples include early childhood education, universities and general practice.

F6.9 Social bonds stimulate innovation by government agencies sharing risk with investors and linking payments to outcomes without prescribing programmes in detail. They may be most useful in stimulating experimentation and testing the effectiveness of new approaches. They may not be suitable for wide application across social services.

F6.10 Commissioning organisations may need to adopt different service models (or significantly adapt their adopted model) to cover urban and rural populations respectively. A differentiated response is likely more effective than a one-size-fits-all model.

F6.11 Complaints mechanisms are part of a well-functioning learning system. They signal the commitment of an organisation to empower its clients.

F6.12 Government is the major funder and purchaser of social services. Its commissioning and purchasing decisions substantially determine the depth, quality and sustainability of providers and potential providers.

F6.13 Contracts for social services are relationship-intensive, reflecting difficulties in service specification and monitoring.

F6.14 Government faces incentives to under-price contracts with non-government providers for the delivery of social services, with probable adverse consequences for long-term service provision. These incentives are consistent with reports from many providers saying their service contract prices are too low. However, those reports are not definitive without clear criteria to determine a "correct" level of funding. This points to a need to be explicit about the basis of funding, the appropriate evaluation criteria, and the pricing processes applied by government.

F6.15 Full funding is appropriate when governments are paying non-government organisations to deliver the Government's goals or commitments, and want full control over the service specification.

F6.16 Properly implemented, the cost implications for government of the inquiry's recommendations should be neutral or positive over time. Any timing and front-end cost questions should be handled within an investment framework.

Recommendations

R6.1 Commissioning organisations should consider a wide range of service models, and carefully select a model that best matches client characteristics, the problem faced and the outcome sought.

R6.2 Commissioning organisations should always consider client-directed service models, as they empower individuals and can lead to more effective services. (These models are most applicable for clients in quadrants B and C.) Where other service models are used, clients should be able to exercise choice as far as possible (as long as the benefits for clients outweigh costs).

R6.3 When commissioning services, government agencies should be open-minded about the size or organisational form of current and potential providers of social services. Preconceptions about provider size or form risk keeping out new entrants and reducing innovation.

R6.4 In some instances government agencies have tens or hundreds of contracts with providers for similar services. In such instances, agencies should consider engaging one or more lead providers to manage government's supply chain of smaller non-government providers.

R6.5 Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decision. Legitimate types include full funding, contributory funding, tied and untied grants, and no funding.

R6.6 "Fully funded" social services payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

The Treasury should develop guidance on how commissioning agencies should assess prices against this criterion.

R6.7 Agencies commissioning social services need to be prepared to understand the costs that providers face in supplying services. They should invest in the skills, tools and research necessary to develop costing models. The Treasury should develop cross-government guidance on social services costing models.

R6.8 The Government should appoint an arbitrator for disputes over pricing in social services contracts that are not resolved through direct negotiations. Using the Treasury guidance on pricing, the arbitrator should attempt mediation, and impose a final and binding decision should mediation fail.

R6.9 Government funding for community development should be through grants for that purpose, and co-funded in some form by the relevant community.

R6.10 The Government should appoint a lead agency to promote better commissioning of social services. This agency should produce guidance and facilitate training for commissioning organisations.

R6.11 Commissioning organisations should actively build the required skills, capability and knowledge base and use them to substantially lift the quality of commissioning.

R6.12 The Government should support the development of a social services commissioning community of practice and encourage commissioning organisations to participate.

R6.13 Formal agreements between an agency and its in-house service delivery arm make costs and expectations explicit. They should be mandatory when that delivery arm competes with non-government providers, and are desirable in other cases.

R6.14 Commissioning organisations should ensure that in-house provision is treated on a neutral basis when compared to contracting out and other service models. This requires independence in decision-making processes. In-house provision should be subject to the same transparency, performance monitoring and reporting requirements as would apply to an external provider.

Chapter 7 – A system that learns and innovates

Findings

F7.1 Devolved service models foster diversity, innovation and learning in the social services system. If well designed, devolved service models promote the selection and expansion of effective services and the curtailing of less effective services.

F7.2 Providers of social services have many opportunities to use information and communications technology to transform the way they engage with clients and commissioning organisations, and the way they design, monitor, evaluate and adapt their services.

F7.3 Currently government agencies have a dominant role in deciding which new ideas should be selected for further development, supported with government funds and applied in the social services system. A more devolved system architecture and devolved service models would better encourage the spread of successful new ideas. More trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, clients and communities would help lift system effectiveness.

F7.4 Many social services currently involve risk-averse government agencies contracting for services from not-for-profit providers that are unable to take on the risk of innovation. The combination stifles innovation.

F7.5 Innovation is risky and sometimes costly. Many not-for-profit providers cannot easily raise funds for investments. As a result, access to capital and limited cashflow are significant barriers to innovation in parts of the social services system.

F7.6 Good performance information that compares services using a common measure is crucial for building support for spreading successful innovation and eliminating poorly performing services

F7.7 The current approach to evaluation in social services fails to make cost-effective use of the wide range of information being generated by daily interaction between clients and services. Such information is often not collected or not linked, so limiting its usefulness.

F7.8 Many parts of the social services system lack a systematic, structured approach to evaluation. Major government programmes are often not adequately evaluated. Evaluation is often not built into the design and implementation phase of new programmes. When programmes are evaluated, negative results are sometimes suppressed. Evaluations often are of narrow scope and fail to look at system-wide and long-term costs and benefits.

F7.9 Many not-for-profit providers find it difficult to fund evaluation on top of delivering services and, in any case, lack the capability to carry out good evaluation.

Recommendations

R7.1 Organisations commissioning social services should look for opportunities to engage providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should have the right to share the innovation more widely in the social services system.

R7.2 Commissioning agencies should encourage the spread of innovation in social services by:

- using devolved service models and investment frameworks that put weight on what is valued by clients;
- improving the quality and transparency of information on service performance; and
- rewarding providers who innovate to improve their performance.

R7.3 Government social services commissioning agencies should respect the confidentiality of innovative ideas that providers submit as part of a tender or in other circumstances. Where government agencies wish to spread an innovation that a third party creates, they should negotiate for the rights to do so.

R7.4 This inquiry is recommending greater use of devolution. Commissioning organisations should promote and monitor the spread of innovation in devolved systems. They should choose and refine services models to increase the spread of innovation.

R7.5 Commissioning organisations and providers of social services should use a wider range of data sources to monitor and evaluate service performance in real time. Then they could respond to trends promptly and so achieve significant improvements in efficiency and effectiveness.

R7.6 Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. When the Government funds social services evaluations, it should require adherence to those principles.

R7.7 Superu has developed a protocol for the publication of social science research and evaluation products conducted or commissioned by government. The Government should require all government agencies that produce or commission social science research and evaluation to adhere to this publishing protocol.

R7.8 Commissioning organisations should ensure that the performance of each social service programme they fund is monitored and evaluated in a way that is commensurate with its scale and design. When commissioning organisations fully fund service providers to deliver government goals and commitments, they should only fund programmes whose performance can be evaluated.

Chapter 8 – Leveraging data and analytics

Findings

F8.1 Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design, commission and provide effective services. Better data and data analysis will help target resources to have a greater impact on improving outcomes.

F8.2 Social services have lagged behind many other service industries in adopting data-driven innovation.

F8.3 The social services system has many dispersed and small providers. Government agencies and social services providers need to collaborate to establish standards for data sharing and to develop a wide-access, client-centred data network.

F8.4 Modern data technology and analytics can support a devolved approach to investing in social services, by collecting and analysing data on service costs, client participation in services, and client outcomes.

F8.5 Where individuals give consent, government agencies could give third parties, such as non-government organisations and academia, access to identifiable personal data to support the development and provision of innovative social services.

Recommendations

R8.1 Government social services agencies engaged in sharing personal data should adhere to the four guiding principles of value, inclusion, trust and control proposed by the New Zealand Data Futures Forum.

R8.2 The Social Sector Board should initiate a project on social sector data integration that includes the design of institutions and processes to progressively develop a comprehensive, wide-access, client-centred data network. This network should be accessible to commissioning organisations, providers, clients and researchers of social services.

R8.3 The Social Sector Board should undertake a project to share client-level social sector data to increase the scope, power and accuracy of the Government's investment approach to funding and targeting social services.

R8.4 The Social Sector Board should design and oversee the implementation of a system for government social services agencies and social services providers to capture information on their clients and services in a consistent way. This should allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

R8.5 The Social Sector Board should set up governance arrangements that:

- secure confidence and trust in the sharing of data across the social services; and
- provide a source of independent advice to government and data users on proposals for data linking and sharing across the social services system.

R8.6 The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. Where individuals give fully-informed consent, this could include sharing their personal data held by government agencies.

Chapter 9 – Investment and insurance approaches

Findings

F9.1 The outcomes sought by the Ministry of Social Development's Investment Approach are likely to align with what citizens care about. The wider adoption of an investment approach would lead to substantial improvements in the targeting of social services.

F9.2 Borrowing now to fund investments that are expected to reduce future social welfare liability is good in principle, but has risks in practice. Both social and economic costs placed on future generations have implications for inter-generational equity.

F9.3 A social insurance model aligns the long-term incentives of insurers and their members. Because social insurers face the long-term costs of service decisions, they have the incentives to make sound decisions about early intervention and service quality.

F9.4 A social insurance model with multiple non-government insurers has good opportunities and incentives for innovation, and may out-perform models with a single government insurer over the longer term. Such models face difficult design and transition issues.

F9.5 A combination of the full inter-temporal version of the investment approach, a devolved architecture and client enrolment would offer a long-term view of both finances and client welfare, and provide organisations with the right incentives to guide effective early intervention. Such a combination is more attractive than social insurance models.

Recommendations

R9.1 Future welfare liability – the currently used proxy for social return in the Ministry of Social Development's Investment Approach – should be further refined to better reflect the wider costs and benefits of interventions.

R9.2 The investment approach's underlying goal of greatest improvement in social value for each unit of resource deployed risks excluding some clients from receiving any service. This goal should be combined with explicit criteria that give clients access to at least a minimum level of service.

R9.3 The models underlying the Ministry of Social Development's Investment Approach, and future applications of the investment approach, should be open and subject to independent actuarial and economic scrutiny. This would help build public confidence in the approach.

R9.4 The investment approach should be extended to operate at a cross-programme, cross-agency level.

Chapter 10 – Integration for more effective services

Findings

F10.1 Integrating services has costs as well as benefits that vary according to circumstances. Commissioning organisations and service providers need to weigh up the costs and benefits when deciding on how much integration to pursue and by what means.

F10.2 The fragmentation of social services is a long-standing issue that has proven difficult to resolve despite many attempts.

F10.3 Multiple and overlapping integration initiatives designed and initiated by government social services agencies can result in confusion, frustration and a strain on scarce resources.

F10.4 The persistent influence of administrative silos has hampered current approaches to integrating services to the most disadvantaged New Zealanders (quadrant D). Current approaches generally do not devolve decision rights over an adequate budget to those working with clients. Multiple integration initiatives targeted at the same clients have compounded these problems.

F10.5 The Better Lives agency and District Health and Social Boards models each have potential to improve the effectiveness of social services for the most disadvantaged New Zealanders – those with multiple, complex needs who need help with navigating services.

Recommendations

R10.1 Government social service agencies should seek further opportunities to improve service efficiency and effectiveness through client-centred service integration initiatives in those parts of the social services system that have complex inter-connected pathways. This should build on lessons from initiatives like those at the Canterbury District Health Board and the Hutt Valley Justice Sector Innovation Project.

R10.2 To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should devolve authority over adequate resources to providers close to clients. To be effective, this devolution would require:

- an adaptive, client-centred approach to service design;
- commissioning agencies to have responsibility for a defined population;
- commissioning agencies and providers to have clear accountability for improving client outcomes;
- commissioning agencies to have a way of prioritising the use of resources; and
- an information system to support decision making.

R10.3 To address the needs of the most disadvantaged New Zealanders (quadrant D), the Government should assess and implement the most appropriate model of devolution. The Government should consider the District Health and Social Boards, Better Lives agency and alternative models.

Chapter 11 – Client choice and empowerment

Findings

F11.1 Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the *what*, *who*, *when*, *where* and *how* of service delivery.

F11.2 In-house provision and contracting-out models typically offer little reward to providers for being responsive to the needs of clients.

F11.3 The allocation of decision rights under in-house provision and contracting-out models often casts clients as passive recipients of services, rather than active participants in decisions that impact their lives.

F11.4 In many instances clients, rather than government officials, have the best understanding of their own needs and the combination of services they require. (Such clients are typically in quadrants B and C.) Clients are also often in the best position, with the support of family/whānau and friends, to integrate the services they require.

F11.5 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery leads to a better fit between client needs and the services they receive. A better fit means that more public money is spent on services that clients value, and less on those they do not.

F11.6 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to delivering services.

F11.7 At a system level, giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery creates an incentive for providers to be responsive to client needs and to lift the quality of the services they offer.

F11.8 Giving clients choice and control over the *what*, *who*, *when*, *where* and *how* of service delivery provides a mechanism for integrating services. Integration will be greatest when clients have access to a pool of funds (or services) from different agencies.

F11.9 Compared to some other OECD countries, New Zealand has been slow to adopt client-directed budgets in areas other than disability support.

F11.10 Most clients experience an increased level of satisfaction after moving from top-down service models to client-directed service models.

F11.11 Some studies have reported positive health outcomes when clients shift from top-down service models to client-directed service models. However, in general the evidence for such health improvements is weak.

F11.12 If good practices are used, most clients of social services programmes can and do exercise choice when given the opportunity.

F11.13 Little evidence is available to support concerns that client direction leads to a decline in the quality of services that clients receive.

F11.14 There is little evidence that client direction is any more open to fraud or misuse than other models of social services delivery.

F11.15 The cost of client-directed service models relative to other models is difficult to determine. However, the most recent New Zealand study suggests that, over time, costs for users of Individualised Funding (IF) fall below those of comparable non-IF users.

F11.16 Limited evidence is available on the impact of client-directed budgets on the conditions of workers. Submissions to this inquiry suggest the pay and conditions of workers employed under Individualised Funding are better than comparable workers employed under the contracting-out model. The Commission has not received convincing evidence that contradicts these submissions.

Recommendations

R11.1 When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society.

R11.2 The Government should investigate, and where appropriate trial, client-directed service models for home-based support of older people, respite services, family services, and drug and alcohol rehabilitation services.

R11.3 The Government should pursue further extension of client choice in disability support, drawing on the lessons from Enabling Good Lives.

Chapter 12 – Better purchasing and contracting

Findings

F12.1 The framework within which contracting for social services takes place consists of three important documents: the Government Rules of Sourcing and the Treasury and Office of the Auditor-General guidelines. These documents were developed at different times and are not consistent. This creates confusion for social services agencies.

Recommendations

R12.1 To improve clarity, the Government should publish separate Rules of Sourcing for Social Services. These rules should make it explicit that contracting out is just one of a number of models available for the purposes of commissioning social services, although contracts may be used with other models as well.

R12.2 The Government should develop a single set of up-to-date guidelines to support the recommended Rules of Sourcing for Social Services and should provide training on these guidelines to social services agencies and providers.

R12.3 The recommended Rules of Sourcing for Social Services (and their supporting guidelines) should make it clear that relevant information should be provided to all participating suppliers in tender processes.

R12.4 Social services agencies should report annually on their compliance with the timelines and deadlines set out in tendering documentation.

R12.5 The recommended Rules of Sourcing for Social Services should incorporate a requirement for agencies to take account of the past performance of bidders when assessing bids. The requirement should enable agencies to ignore past performance only under exceptional circumstances and if they publish their reasons at the start of the tendering process.

R12.6 Government agencies should apply a standard duration of three years to social services contracts unless their risk analysis indicates that a shorter or longer duration is better suited to the purpose of the contract. If the agency chooses a different duration they should publish their reasons.

R12.7 Social services agencies and non-government providers should continue to expand the use of contracting for outcomes, including the use of incentive payments, where contracting out is the best service model.

R12.8 Government agencies should structure their monitoring and reporting requirements according to an assessment of risks related to the results or outcomes they seeking.

Chapter 13 – The Māori dimension

Findings

F13.1 Creating opportunities for Māori groups to exercise mana whakahaere in delivering social services has the potential to both improve outcomes and lead to more effective exercise of rangatiratanga. More devolution of commissioning decisions to Māori would help create such opportunities.

F13.2 Whānau Ora embodies concepts important to Māori and holds much potential to improve Māori wellbeing and mana whakahaere. It would be strengthened by a dedicated budget based on assessed needs for a defined population; sufficient decision rights over the budget; effective resource allocation to where resources can have the most effect; and improved accountability for results.

F13.3 The Treaty settlement process is not necessarily well suited to exploring opportunities for Māori groups to have greater involvement in social services commissioning.

Recommendations

R13.1 In making decisions about whether and how to devolve the commissioning and delivery of social services for Māori, government should be open to opportunities for Māori to exercise mana whakahaere. This should be based on the Treaty of Waitangi principles of partnership, and active protection of Māori interests and of rangatiratanga.

R13.2 The Government should let Māori propose arrangements within or outside the Treaty settlement process for devolved commissioning, rather than co-opt Māori groups into a process, or impose a process on them.

Chapter 14 – Implementation

Recommendations

R14.1 A small and cohesive *Ministerial Committee for Social Services Reform,* drawn from relevant social services and central portfolios, should be responsible for leading the Government's reform of the social services system.

R14.2 The Government should establish a Transition Office to:

- help the Ministerial Committee to develop, refine and improve a reform plan;
- help the Ministerial Committee identify tasks and the appropriate allocation of responsibilities for implementation;
- develop and implement a model that would improve outcomes for the most disadvantaged New Zealanders;
- oversee implementation of reform, and publish reports on progress;
- ensure that there is adequate capability, advice and design guidance for agencies engaged in commissioning; and
- encourage innovation and continuous system improvement.

R14.3 Developing a new approach for engaging with and delivering services for disadvantaged New Zealanders (as outlined in Chapter 10) should receive high priority from the Ministerial Committee in the reform plan. The Transition Office should be tasked with leading this development.

R14.4 The Government should enhance the role of Superu, so that it can act as an effective independent agency responsible for ongoing monitoring, researching and evaluating the performance of the social services system.

The Government should investigate whether legislative change is needed to support this expanded purpose and initiate any required amendments.

R14.5 The Government should establish an Advisory Board to provide the Ministerial Committee with independent expert advice, from a wide range of system participants, about the design of the system and progress towards implementation.

R14.6 The Transition Office should report publicly on reform plan progress every six months. Each progress report should be accompanied by an independent commentary from the Advisory Board.

R14.7 The Social Sector Board and the Transition Office should develop a memorandum of understanding setting out their respective roles, how they will work together, and how they will resolve any uncertainties about their respective roles.

R14.8	In establishing the Ministerial Committee for Social Services Reform, the Government should review existing social-sector ministerial committees with the aim of removing duplication and streamlining their operation.
R14.9	The Government should initiate a multi-year review of the major social services programmes against clearly specified evaluation criteria. Reviews should be independently assessed by Superu and published.
R14.10	The Government should seek opportunities to undertake benchmarking of social services, such as through participating in the Australian *Report on Government Services*.

Appendix A Public engagement

Submissions

Individual or organisation	Submission numbers
Accident Compensation Corporation	30, DR219
ACROSS Te Kotahitanga O Te Wairua	DR136
Age Concern New Zealand	100
Alcohol Healthwatch	84
Alliance Health Plus Trust	119
Alma Robertson	DR215
Alzheimers New Zealand	27, DR146
Anglican Advocacy	DR180
Anonymous submission	62
Anonymous submission	DR234
Aotearoa New Zealand Association of Social Workers (ANZASW)	78, DR155
Aotearoa New Zealand Evaluation Association	37
Association of Blind Citizens of New Zealand	134, DR217
Association of Salaried Medical Specialists	85, DR156
Auckland Council	DR177
Auckland District Council of Social Services	55, DR141
Auckland North Community and Development	22, DR147
Barnardos	12, DR190
Bay of Plenty Community Response Forum	53
Birthright New Zealand	128, DR171
Blind Foundation	16, DR209
Canterbury Clinical Network	DR198
Canterbury District Health Board	DR149
Canterbury Men's Centre	2
Careerforce	50
CareNZ	99
Carers New Zealand	71
Carole Gordon	105
CCS Disability Action	65, DR188
Charlie Devenish	26
Christine Curtis	DR246
Claire Peters	DR229
Co-leaders of the Māori Party	118
Communities and Neighbours (CAN) Steering Group	66
Community Care Trust (CCT)	96
Community Law Centres of Aotearoa	115
Community Law Otago/ Council of Social Services Dunedin	DR165
Community Networks Aotearoa	31, DR236
Community Networks Wellington	33, DR159
Community Workers Training and Support Trust	DR208
ComVoices	117
Counselling Services Centre	59
Counties Manukau District Health Board	64

Deaf Aotearoa	69
Delta Community Support Trust	13
Department of Corrections	21
Disabled Persons Assembly NZ Inc	54, DR243
Dunedin City Council	34
Dunedin Community Law Centre	48
Early Childhood Council	15
Ecosynergy Group Limited	131
Emerge Aotearoa	DR223
Every Child Counts	DR166
Footsteps Education Limited	42
Franklin Family Support Services	DR228
General Practice New Zealand	DR197
Graham Aitken	107
Graham Howell	17
Gretchen Galloway	DR231
Healthcare of New Zealand Holdings Limited	51
Heather Hoffman	DR237
Herman and Christine Veltman	DR205
Hilary Stace	DR196
Hokianga Health Enterprise Trust	44
Home and Community Health Association	114, DR192
Homebuilders Family Services North Rodney	38
Hui E! Community Aotearoa	DR213
Human Rights Commission	101, DR202
IHC New Zealand	80, DR218
Inclusion Aotearoa	DR140
Inclusive NZ	32, DR211
Inspiring Communities and Partners	58, DR184
Irene Andrell	DR242
Iwi Chairs for the Whānau Ora Partnership Group	DR168
J Phillips	DR143
Jackie Monastra	DR230
Jan Sara	DR241
Jane Lee	60
Jennifer Natusch	DR160
Jenny Campbell	92
Jo Lussey	DR233
John Angus	109
John Herring	DR151
Judy Howard	DR210
Kay Brereton	9
Kelsey te Kaat	DR245
Laura Fergusson Rehabilitation	10
Lifeline Aotearoa Inc	DR170
Lifewise	46
Local Government New Zealand (LGNZ)	124
Lorna Dyall	116
Lynda Donne	DR175

Manawanui	8, DR194
MAX Solutions	DR200
Methodist Social Services	14
Michael Mills	DR145
Mind and Body Consultants	DR139
Ministry of Business, Innovation and Employment	DR153
Ministry of Education	DR207
Ministry of Pacific Island Affairs	DR244
Ministry of Social Development	72, DR224
Ministry of Social Development – Cross Government Accreditation Working Group	132
Myra Harpham and Jennifer Coote	106
National Collective of Independent Women's Refuges Inc	123
National Committee for Addiction Treatment	98
National Council of Women of New Zealand (NCWNZ)	20
National Services Purchasing, National Health Board, Ministry of Health	111
New Zealand Council of Christian Social Services	35, DR201
New Zealand Council of Trade Unions – Te Kauae Kaimahi	103, DR221
New Zealand Disability Support Network (NZDSN)	47, DR163
New Zealand Educational Institute – NZEI Te Riu Roa	40, DR157
New Zealand Kindergartens	52, DR176
New Zealand Medical Association	39
New Zealand Nurses Organisation	133, DR144
New Zealand Organisation for Rare Disorders (NZORD)	89
New Zealand Post Primary Teachers' Association	88, DR216
New Zealand Public Service Association	108, DR183
New Zealand Red Cross	94
New Zealand Society on Alcohol and Drug Dependence (NZSAD)	113
NGO Health & Disability Network	70, DR158
Noelene Buckland	61
Office of the Children's Commissioner	77, DR178
Office of the Privacy Commissioner	DR206
OMEP Aotearoa New Zealand	DR148
OMEP Waikato Chapter	DR167
Otago Youth Wellness Trust	73
Owen Carter	1
Pact Supporting People	95, DR232
Palmerston North Community Services Council Inc	125, DR238
Pat Harrison	19
Peter Matthewson	25
Peter McKinlay	DR154
Pharmacy Guild of New Zealand	11
Philip Patston	DR222
Phyllis Anscombe	DR172
Platform Trust	45, DR179
Plunket	DR169
Presbyterian Support New Zealand	76, DR186
Problem Gambling Foundation	91
Public Health Association of New Zealand	122, DR173
Refugee Trauma Recovery	DR199

Relationships Aotearoa	56
Restorative Justice Aotearoa	28
Richard Wood	18
Right Service Right Time Governance Group and Pegasus Community Board	DR193
Rose and Noel Chadwick	DR150
Rural Women New Zealand	DR191
Salvation Army	104, DR214
Sandra Grey and Charles Sedgwick	68
Simon Chapple	DR138
SmartGrowth Implementation Committee	DR142
Social Sector Board	DR225
Social Sector Innovation Western Bay of Plenty Charitable Trust	81, DR174
Social Sector Trials	126
Social Service Providers Aotearoa	129, DR235
Social Services Collective Hauraki	DR164
South Waikato Social Services Collective	7, DR185
Southland Interagency Forum	29
SPACE NZ Trust	63
Spectrum Care Trust Board	90, DR181
Stand Children's Services Tū Māia Whānau	127
START	121
State Services Commission and The Treasury	DR226
Statistics New Zealand	DR220
Steve Thomas	87
Sue Johnston	3
Superu	82, DR182
Supporting Families in Mental Illness NZ	49
Tangata o le Moana Network	93
Tauranga Budget Advisory Service	57
Te Pūtahitanga o Te Waipounamu	DR152
Te Roopu Waiora	97
Te Rūnaka o Ōtākou	110
Te Rūnanga o Ngāi Tahu	DR162
Te Tai Tokerau Whānau Ora Collective	DR227
Te Taiwhenua o Heretaunga	DR189
The Impact Collective	130, DR203
The Māori Reference Group for Action on Violence within Families	120
The Methodist Mission	4, DR135
The Raglan House	24
Tom Adson	DR239
UNICEF NZ	36
Victory Community Health	5
Volunteering New Zealand	86, DR161
Waikato Community Response Forum	79
Waimakariri District Council	75, DR240
Warren Palmer	DR212
WAVES Trust and Community Waitakere	83, DR195
Wellbeing North Canterbury Community Trust	112
Wellington City Council	43, DR137

Wesley Community Action	6
Whakaata Tohu Tohu/Mirror Services	23
Wise Group	41, DR187
Workbridge	102, DR204
Youth Horizons	67

Engagement meetings

Accident Compensation Corporation
Age Concern Canterbury
Age Concern New Zealand
Alliance Health Plus Trust
Anglican Family Care
Anglican Trust for Women and Children (ATWC)
ANGOA (Association of Non-Governmental Organisations Aotearoa)
ASB Community Trust
Auckland City Mission
Australian Community Services Industry Group
Barnardos New Zealand
Birthright New Zealand
Canterbury District Health Board
Capital & Coast District Health Board
Careerforce
Catholic Social Services
CCS Disability Action Upper South Region
Chief Executive of Department of Corrections
Chief Executive of Housing New Zealand Corporation
Chief Executive of Ministry of Business, Innovation and Employment
Chief Executive of Ministry of Education
Chief Executive of Ministry of Health
Chief Executive of Ministry of Pacific Island Affairs
Chief Executive of Ministry of Social Development
Chief Executive of Te Puni Kōkiri
Citizens Advice Bureau
Commissioner of New Zealand Police
Community Networks Aotearoa
Community Waitakere
Compass Health
Department of Internal Affairs
Department of the Prime Minister and Cabinet
Disabled Persons Assembly NZ
Dunedin Community Law Centre
Dunedin Secondary Schools Partnership
Enabling Good Lives Directors, Christchurch and Waikato
Family Works
Ferndale School
Footsteps Education
General Practice New Zealand
Green Party of Aotearoa New Zealand
He Oranga Pounamu

He Puna Marama Trust
Healthy Families New Zealand
Hilary Stace
Hokianga Health
Home and Community Health Association
Horowhenua/Otaki Children's Team
Horowhenua District Council
Howard Fancy
Hui E! Community Aotearoa
IHC New Zealand
Inclusive New Zealand
IPANZ (Institute of Public Administration New Zealand)
Jackie Cumming – Victoria University of Wellington
James Mansell
Jane Allison
Dr Jenny Keightley
John Baker, Ernst & Young (EY)
Dr John Parsons – University of Auckland
Dr Katherine Ravenswood – Auckland University of Technology
Ki A Ora Ngatiwai
Len Cook
Life Unlimited
LifeLinks
Maggy Tai Rakena
Make It Happen Te Hiku Taskforce
Manawanui
Māori Party
Sir Mason Durie
Professor Matthew Parsons – University of Auckland
MAX Solutions
Maxim Institute
McKinlay Douglas Ltd
Methodist Mission Dunedin
Ministry of Business, Innovation and Employment
Ministry of Education
Ministry of Health
Ministry of Justice
Ministry of Pacific Island Affairs
Ministry of Social Development
Ministry of Social Development (Child, Youth and Family Review Secretariat)
Miramare Ltd
Murray Horn
National Beneficiaries Advocacy Consultative Group
National Director, Children's Action Plan
New Zealand Aged Care Association
New Zealand Council of Christian Social Services
New Zealand Council of Trade Unions – Te Kauae Kaimahi
New Zealand Data Futures Forum – John Whitehead, Evelyn Wareham
New Zealand Disability Support Network

New Zealand Educational Institute – NZEI Te Riu Roa
New Zealand Medical Association
New Zealand Nurses Organisation
New Zealand Police
New Zealand Public Service Association
Newtown Union Health Service
Ngāpuhi Iwi Social Services
Ngati Hine Health Trust
Professor Nick Mays – Director of Policy Innovation Research Unit, London School of Hygiene & Tropical Medicine
Office of the Children's Commissioner
Open Home Foundation
Otago Community Care Trust (CCT)
Otago Youth Wellness Trust
Pact Dunedin
Pact Group
Palmerston North Community Services Council
Parent to Parent
Pasifika Futures
Paula Rebstock
Pegasus Health (Charitable) Ltd
Professor Peter Crampton – Otago University
Philanthropy New Zealand
Platform Trust
Plunket
Presbyterian Support/Family Works
Presbyterian Support Otago
Presbyterian Support Upper South Island
PwC (PricewaterhouseCoopers New Zealand)
Rise UP Academy
Professor Robin Gauld – Otago University
Sir Roderick Deane
Salvation Army
Saunders Unsworth
Shine
SkillWise
SmartGrowth Implementation Committee, Western Bay of Plenty
Social Sector Board
Social Sector Joint Venture – Social Sector Trials
Social Sector Trials Lead Dunedin
Social Service Providers Aotearoa
Southern District Health Board
Stand Children's Services Tū Māia Whānau
START
State Sector Reform Action Group
State Services Commission
Statistics New Zealand
Stepping into Employment
STRIVE Community Trust
Superu

Suzanne Snively
Te Aroha Noa Community Services
Te Hau Ora O Kaikohe
Te Hiku Iwi Development Trust
Te Kahui Atawhai O Te Motu Incorporated
Te Ope Koiora o Waikato-Tainui
Te Pou Matakana
Te Pu o Te Wheke Whānau Ora Collective
Te Puni Kōkiri
Te Pūtahitanga o Te Waipounamu
Te Rūnaka o Ōtākou
Te Rūnanga-ā-Iwi o Ngāpuhi
Te Rūnanga o Ngāi Tahu
Te Rūnanga o Ngāti Awa
Te Rūnanga o Te Rarawa
Te Rūnanga o Whaingaroa
Te Tai Tokerau Whānau Ora Collective
Te Wānanga o Aotearoa Te Kuratini o Ngā Waka
Te Whare Ruruhau o Meri Trust
The Impact Collective
The Māori Reference Group for Action on Violence within Families
The Raglan House
The Tindall Foundation
The Todd Foundation
The Treasury
TOAH-NNEST
Tom Love, Sapere Research Group
Turuki Health Care
Waimakariri District Council
Waitomo Papakainga
WAVES Trust
Webb Henderson
Wellbeing North Canterbury Community Trust
Wesley Community Action
West Coast District Health Board
Whānau Mārama-Parenting
Whangaroa Health
Wise Group
Women's Refuge
Workbridge
Youth Horizons

AUSTRALIA

Australian Productivity Commission
Competition Policy Review Panel
Competition Policy Review Secretariat
Department of Employment
Department of Premier and Cabinet – New South Wales
Department of Social Services

Gary Sturgess
Mission Australia
National Disability Insurance Agency
National Disability Services
National Employment Services Association
The Treasury – New South Wales

Conferences

Aotearoa New Zealand Evaluation Association Conferences, 2014 and 2015
Australian and New Zealand Third Sector Research – Resilience, Change and the Third Sector
Big Data and Analytics
Collective Impact 2014
Communities in the Future: Empowering Communities in the Information Age
Community is the Answer
Cooperative Research Conference 2014
Defining our futures – Making Individualised Funding Work for Everyone
Enabling Digital Identity and Privacy in a Connected World
Philanthropy Summit
Rotary Forum: supporting NGOs to survive and thrive
Social Justice In Communities
Social Service Providers Aotearoa Conference 2014
Superu Evidence to Action Conference

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