



## Office of Hon Bill English

Deputy Prime Minister  
Minister of Finance  
MP for Clutha-Southland

26 JUN 2014

Mr Murray Sherwin  
Chair  
New Zealand Productivity Commission  
PO Box 8036  
The Terrace  
WELLINGTON 6143

Dear Murray

### **TERMS OF REFERENCE FOR AN INQUIRY INTO ENHANCING PRODUCTIVITY AND VALUE IN PUBLIC SERVICES**

I am pleased to refer to you the Terms of Reference for a Productivity Commission inquiry into enhancing productivity and value in public services, on behalf of referring Ministers.

The Government is focussed on delivering the best public services to improve outcomes for all New Zealanders. To this end, the Government is constantly striving for potential areas for improvement in the way that services are purchased or commissioned. This inquiry will provide the Government with useful guidance to Ministers and State Sector Chief Executives about how to improve the way services are commissioned.

I wish you all the best as you commence the inquiry and look forward to your results.

Yours sincerely

Hon Bill English  
**Minister of Finance**

## **Terms of Reference – New Zealand Productivity Commission Inquiry into Enhancing Productivity and Value in Public Services**

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

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

### **Context**

1. The Government is trying to bring greater clarity about results from public services (such as the 10 Better Public Services results), and develop smarter strategies and deeper capability to achieve desirable outcomes. Government agencies need to know what actually drives poor outcomes and what concrete actions can prevent or alleviate harm. They need to become more intelligent and effective purchasers that can identify who their most exposed clients are, and better understand what goes on at the frontline. The agencies can then start making decisions to improve services and, thereby, outcomes for people and their communities.
2. There are significant gains to be made by challenging and improving the way in which social sector agencies identify need and purchase services. In particular, this will involve a more intelligent system that understands what impacts it is having and incentivises and enables innovation.
3. The Government has already taken some important steps - its world-first Welfare Investment Approach is a shift towards a smarter system. The new governance structures and ways of purchasing services in the Social Sector Trials and Whānau Ora are examples of innovations in commissioning services.
4. There is growing international awareness that difficult social problems are no longer just the domain of governments and that tackling them in new and innovative ways to get better results will involve combining the expertise of public, social and private sectors.
5. Internationally, governments are demonstrating a much stronger focus on understanding outcomes and measuring value for money from social-service investment. New Zealand can benefit from the experiences of countries such as the UK - for example in implementing payment-by-results contracts in social services.

### **Purpose and Scope**

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

What institutional arrangements would support smarter purchasing/commissioning?

- The Inquiry should provide an overview of emerging new commissioning arrangements both internationally and within New Zealand, focusing on one or two representative agencies. How are population analytics, policy, purchasing, evaluation, different forms of relationships and other relevant functions organised and incentivised? How effective are these arrangements at targeting services at particular clients, combining efforts with other agencies and achieving desired outcomes across the social sector?
- What lessons are there from the Government's initiatives to date (e.g. BPS results and the welfare investment model) and from other national or international innovations for bringing a greater performance focus to purchasing? What organisational features (e.g. internal purchase centres, external challenge) are most effective? How can agencies build and maintain better commissioning capability (skills and systems)?

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

- Provide an overview and assessment of the range of contracting mechanisms, purchase vehicles and new technologies that have been employed in New Zealand or internationally to enable innovation and better results. Examples include outcome-based contracts, joint ventures, local devolution and the use of ICT to facilitate greater client focus and participation. What are the key themes of the innovations? What have been the general features of successful and unsuccessful approaches? What is the role of the community in innovation and/or ensuring that the new purchase arrangements work? How important is contestability or other performance mechanisms for ongoing improvement of outcomes?
- Looking at two to three specific outcome or service areas, what lessons are there for applying new purchase mechanisms in New Zealand? How can any risks be managed? What are the barriers to adoption?
- Consideration should be given to the characteristics of the New Zealand provider market, and how it differs from regular commercial markets and how the role of the community impacts on it. In particular, the inquiry should examine the openness, capacity and capability of current providers to manage new purchase models (e.g. financially-linked, results-based contracts), and how the Crown could influence the shape and long-term sustainability of the market in the future.

### **Analysis and Recommendations**

8. The inquiry should explore academic research and international experience related to both questions. However, the focus should be on practical applications relevant to New Zealand circumstances.
9. The Commission should work with a couple of departments and/or Crown entities, reviewing current approaches and ongoing changes to draw lessons and identify opportunities for change. It is expected that analysis and recommendations will provide useful guidance to Ministers and State Sector Chief Executives about how to improve the way services are commissioned.

### **Consultation**

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

## **Timeframes**

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

HON BILL ENGLISH, MINISTER OF FINANCE

HON DR JONATHAN COLEMAN, MINISTER OF STATE SERVICES