



DRAFT



More effective social services

Draft report

Summary version

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Draft Report – Summary version

April 2015

The New Zealand Productivity Commission – Te Kōmihana Whai Hua o Aotearoa¹

Date: April 2015

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

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Inquiry contacts

Administration Robyn Sadlier
T: (04) 903 5167
E: info@productivity.govt.nz

Website www.productivity.govt.nz

Twitter @nzprocom

Other matters Geoff Lewis
Inquiry Director
T: (04) 903 5157
E: geoff.lewis@productivity.govt.nz

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¹ The Commission that pursues abundance for New Zealand.

Terms of reference

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

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

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

Context

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

Purpose and Scope

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

What institutional arrangements would support smarter purchasing/commissioning?

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

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

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

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

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

Analysis and Recommendations

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

Consultation

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

Timeframes

The Commission must publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to referring Ministers by 30 June 2015².

Referring Ministers

Hon Bill English, Minister of Finance

Hon Dr Jonathan Coleman, Minister of State Services

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

About the summary version

This summary version provides the key points, questions, findings and recommendations from the Productivity Commission's draft report as part of its inquiry *More Effective Social Services*.

The inquiry aims to shed light on how commissioning and purchasing influence the quality and effectiveness of social services, and suggests ways to improve these practices to achieve better outcomes for New Zealanders.

This report follows the release of the issues paper in October 2014, consideration of submissions; meetings with interested parties; and the Commission undertaking its own research and analysis of issues central to making social services more effective.

This report asks some questions and gives draft findings and recommendations. The Commission welcomes information and comment on any part of this report and on any issues that participants consider relevant to the inquiry's terms of reference.

To see the full version of the draft report - including information on how to make a submission – please visit our website www.productivity.govt.nz.

Key inquiry dates

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

Contacts

Administrative matters: T: +64 4 903 5167
E: info@productivity.govt.nz

Other matters: Geoff Lewis
Inquiry Director
T: +64 4 903 5157
E: geoff.lewis@productivity.govt.nz

Postal address for submissions: More effective social services inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Website: www.productivity.govt.nz

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Format of the summary version



Questions



Findings



Recommendations

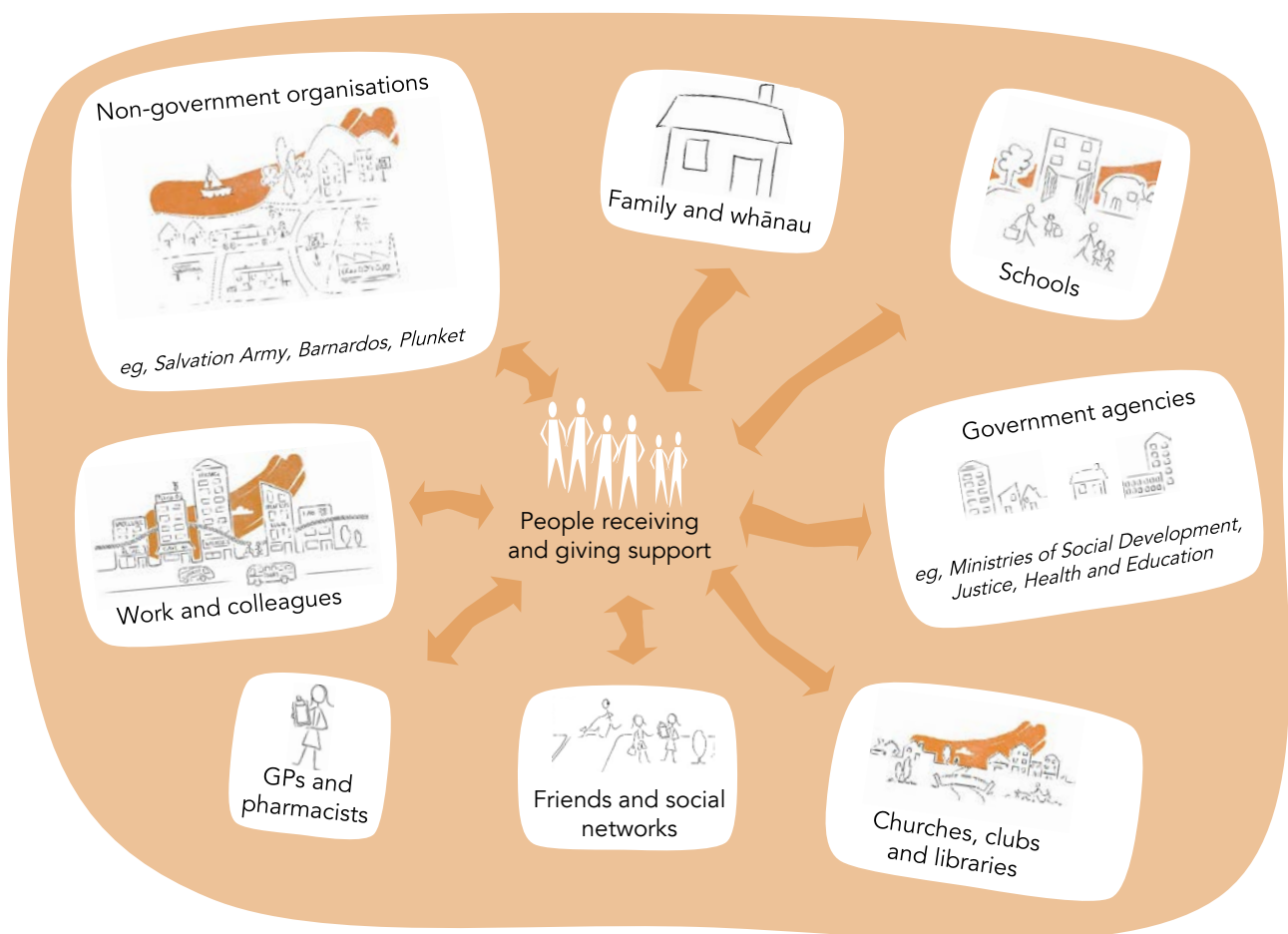
Overview

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

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

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

Figure 0.1 Elements of the social services system



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

The inquiry has examined (among other things):

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

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

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

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

The Commission has drawn evidence from many sources including:

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

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

Social services in New Zealand

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

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

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

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

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

³ This excludes income support and benefit payments.

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

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

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

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

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

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

New ideas in New Zealand and elsewhere

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

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

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

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

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

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

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

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

Assessing system performance and diagnosing its causes

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

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

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

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

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

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

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

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

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

Designing the institutional architecture

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

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

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

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

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

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

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

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

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

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

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

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

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

Better commissioning of services

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

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

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

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

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

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

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

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

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

Funding practices

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

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

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

Creating a system that learns and innovates

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

Key features of a system that learns are:

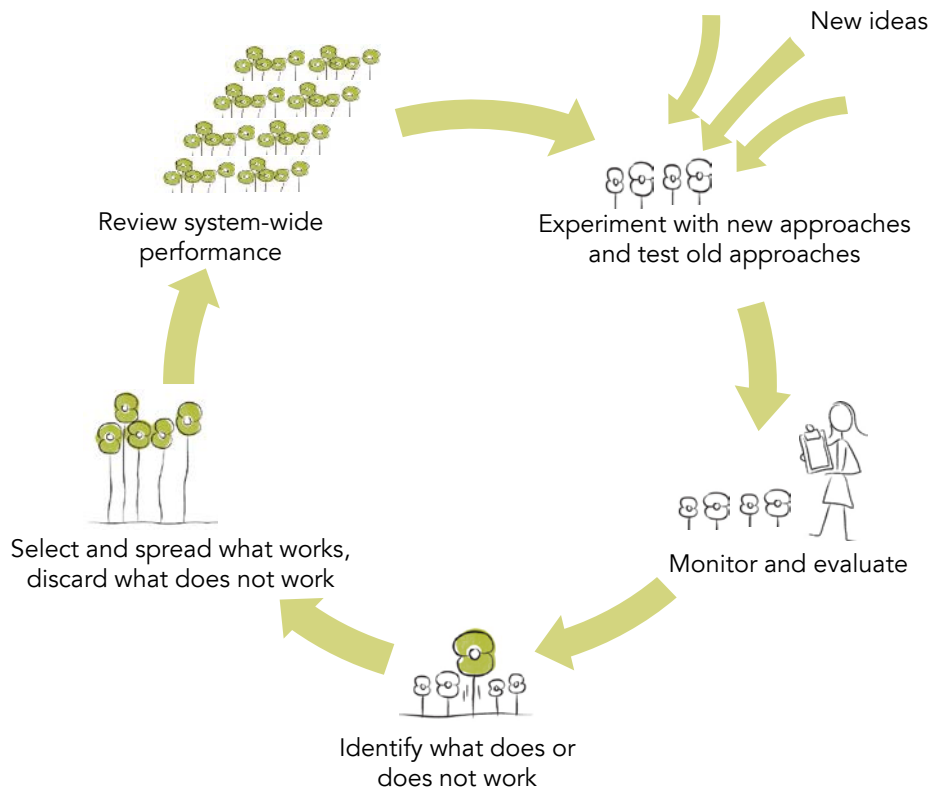
- trying a variety of new ways of doing things;
- tolerating trials that fail;
- dealing with failure quickly;
- identifying and selecting the variants that perform better; and
- spreading the uptake of these more successful variants.

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

A system that learns needs to have:

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

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

Figure 0.2 A system that learns

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

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

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

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

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

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

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

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

Leveraging data to improve social services

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

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

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

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

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

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

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

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

Social investment and insurance

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

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

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

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

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

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

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

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

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

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

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

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

Integrating services for better outcomes

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

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

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

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

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

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

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

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

Empowering clients and giving them more choice

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

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

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

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

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

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

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

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

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

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

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

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

Better purchasing and contracting

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

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

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

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

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

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

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

The Māori dimension

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

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

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

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

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

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

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

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

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

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

Implementing change

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

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

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

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

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

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

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

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

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

Strategic themes

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

Theme 1: Improve system stewardship

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

Theme 2: Improve capability and tool development

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

Theme 3: Make better use of data

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

Theme 4: Shape incentives through choice and transparency

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

Theme 5: Reshape roles and responsibilities

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

Theme 6: Embed continuous improvement

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

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

Theme 7: Encourage consultation

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

The size of the prize

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

Benefits to individual clients

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

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

Benefits to service providers

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

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

Benefits to government

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

Benefits to the economy

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

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

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

Benefits to wider society

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

Overall

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

Summary of questions

Chapter 5 – Institutional architecture

Q5.1

Which communities of interest would like to be part of greater devolution of service commissioning?

Chapter 6 – Commissioning

Q6.1

What mechanisms are appropriate to determine whether prices for “fully funded” services are set at a level that allows an efficient provider to make sustainable returns on the resources they deploy? Should there be an independent body to resolve disputes? If so, should it take the form of an arbitrator or a regulator?

Chapter 7 – A system that learns and innovates

Q7.1

How can government agencies manage contracting processes in a way that best leads to the development and dissemination of innovative approaches to service design and delivery?

Chapter 8 – Leveraging data and analytics

Q8.1

What difficult-to-solve social problems would be amenable to new solutions developed by data-sharing partnerships between the Government, non-government organisations and academics?

Chapter 9 – Investment and insurance approaches

Q9.1

What non-government organisations have the potential to become social insurers for enrolled populations? What are the potential advantages and problems of a multiple-insurer approach?

Chapter 10 – Service integration

Q10.1

Should the government seek to align the geographical boundaries used by its social delivery agencies for defining service responsibilities? What are the advantages and disadvantages of aligning boundaries?

Chapter 11 – Client choice and empowerment

Q11.1

The Commission is interested in hearing from people with first-hand experience working under Individualised Funding and Enabling Good Lives. Have any specific studies been undertaken into the impact of these two programmes on workers?

Chapter 13 – The Māori dimension

Q13.1

Has the Commission adequately understood the challenges of devolving funding on the basis of a population group or community of interest?

Findings and recommendations

The full set of findings and recommendations from the report are below.

Chapter 2 – Social services in New Zealand

Findings

F2.1

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

F2.2

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

F2.3

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

F2.4

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

F2.5

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

F2.6

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

F2.7

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

F2.8

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

F2.9

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

Chapter 3 – New ideas in New Zealand and elsewhere

Findings

F3.1

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

F3.2

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

F3.3

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

F3.4

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

Chapter 4 – An assessment of the social services system

Findings

F4.1

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

F4.2

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

F4.3

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

F4.4

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

F4.5

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

F4.6

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

F4.7

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

F4.8

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

F4.9

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

F4.10

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

F4.11

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

Chapter 5 – Institutional architecture

Findings

F5.1

Top-down control has significant limitations. Expanded use of other architectures may achieve substantial improvements in the performance of social services.

F5.2

The case for large-scale devolution of responsibilities for social services to local government does not appear strong in New Zealand. It would not resolve some significant problems of the current architecture.

F5.3

Delegation of responsibility for social services to semi-autonomous government entities can improve on top-down control where such entities have better information, capability and incentives to make and implement decisions that maximise social returns.

F5.4

Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. But these mechanisms are not sufficient on their own to provide flexibility at the interface between providers and clients.

F5.5

Improved measurement of service cost and impact on client outcomes – such as that being pursued with the Investment Approach – may support further delegation of authority to shift funding between budget appropriations.

F5.6

Institutional architecture and the enabling environment require active management if social services are to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall somewhat short of what is required of a system steward.

Recommendations

R5.1

The Government should make greater and smarter use of delegation and devolution in the social services system. These architectures often feature better incentives for encouraging innovation and improving social services outcomes.

R5.2

The Government should take account of the role and value of volunteers as an important part of social services in drafting new legislation to ensure that volunteers are not crowded out by new regulation. The Government should pay particular attention to this issue when finalising the Health and Safety Reform Bill.

R5.3

Government has a unique role in the social services system. It is the major funder of social services, and has statutory and regulatory powers unavailable to other participants. Government needs to take responsibility for system stewardship, and for making considered decisions that shape the system. This includes the overarching responsibility for monitoring, planning and managing resources in such a way as to maintain and improve system performance.

Chapter 6 – Commissioning

Findings

F6.1

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

F6.2

Managed markets – in which providers compete for market share – are likely to stimulate better performance and more innovation than where services are simply contracted out. They reduce the financial risks of providers, as they allow more time and opportunity to react to signals of poor performance (relative to loss of contract).

However, managed markets are complex to set up and administer, and require ongoing adjustment. So they are best applied to relatively large-scale social services.

F6.3

Trust models capitalise on the intrinsic motivation and professional behaviour of providers. These models require careful design to ensure sufficient peer monitoring and regulatory oversight, and work best with hard budget limits and strong client voice.

F6.4

The *shared goals* service model reflects a view that complex social problems are best addressed by the organisations and social-services personnel closest to clients working together to share information, resources and expertise for the benefit of those clients.

This service model promotes common ownership of problems and goals, and so encourages constructive and integrated problem solving and creative solutions.

Organisations commissioning services using a shared goals model need to set high-level goals within a broad performance-measurement framework that is acceptable to those participating in shared goal setting, and leave them room to develop their own compatible, but subsidiary goals and measures.

F6.5

Consultation with service providers and users during service commissioning can discover information that can be used to clarify objectives and design a better service, and to build wider support for, and ownership in, a service design. But consultation can cause delay, and involves costs.

F6.6

Complaints mechanisms are part of a well-functioning learning system, and signal the commitment of an organisation to empower its clients.

F6.7

Service commissioning may need to adopt different service models (or significantly adapt their adopted model) to cover urban and rural populations respectively. A differentiated response is likely more effective than a one-size-fits-all model.

F6.8

Government faces incentives to underfund contracts with non-government providers for the delivery of social services, with probable adverse consequences for long-term service provision. These incentives are consistent with reports from many providers that they are underfunded. However, those reports are not definitive without clear criteria to determine a "correct" level of funding. This points to a need to be explicit about the basis of funding, the appropriate evaluation criteria, and the pricing processes applied by government.

F6.9

Providers capable and confident of delivering services in the way and to the standard specified by government are likely to welcome a commitment to fully fund such service contracts. Those providers who wish to pursue goals not necessarily aligned with those of government should not expect full funding.

Recommendations

R6.1

Formal contracts between an agency and its in-house service delivery arm make costs and expectations explicit. They should be mandatory when that delivery arm competes with non-government providers, and are desirable in other cases.

R6.2

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

R6.3

Commissioning agencies should consider a wide range of service models, and carefully select a model that best matches the characteristics of the service being commissioned.

R6.4

Commissioning agencies should always consider client-directed service models, as they empower individuals and lead to more effective services. However, those models are not always applicable. Where other service models are chosen, client choice should be supported to the extent feasible.

R6.5

Commissioning agencies need to be clear why they are consulting and convey this clearly. Agencies should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

R6.6 The government agencies responsible for commissioning social services should actively build staff skills and agency capacity to make effective commissioning decisions.

R6.7 Government should initiate some well-resourced demonstration projects designed to build awareness of and capability in commissioning.

R6.8 Government may reasonably choose the type of funding to match its priorities. It should always be explicit about the type of funding, the appropriate level of control that this funding brings, and the likely consequences of its funding decision. Legitimate types include full funding, contributory funding, tied and untied grants, and no funding.

R6.9 Full funding is appropriate when governments are paying non-government organisations to deliver the Government's goals or commitment, and want full control over the service specification.

R6.10 "Fully funded" social service payments to non-government providers should be set at a level that allows an efficient provider to make a sustainable return on resources deployed. This funding level will support current providers to invest in training, systems and tools. It will also encourage entry by new providers.

R6.11 Agencies commissioning social services need to be prepared to understand the costs that providers face in supplying services. They should invest in the skills, tools and research necessary to develop costing models. The Treasury could provide useful cross-government guidance.

R6.12 Government funding for community development should be through grants for that purpose, and co-funded in some form by the relevant community.

R6.13 When commissioning services, government agencies should be open-minded about the size or organisational form of current and potential social service providers. Preconceptions about provider size or form risk keeping out new entrants and reducing innovation.

R6.14 Provider subcontracting can be an efficient way to reduce the number of relationships managed by government agencies, and to improve the quality of relationships overall. Government agencies should be open to providers of social services subcontracting the delivery of services to other providers.

Chapter 7 – A system that learns and innovates

Findings

F7.1 Service models without overly centralised control encourage learning in the social services system. They foster diversity and encourage the selection and expansion of effective services and the curtailment of less effective ones.

F7.2 Social services providers have not, for the most part, been affected by the disruptive innovation that has transformed many market services. Services firms in other parts of the economy have adopted new productivity-enhancing business models enabled by information and communications technology.

F7.3

Social service providers have many opportunities to use information and communications technology to transform the way they engage with clients and commissioning organisations, and the way they design, monitor, evaluate and adapt their services.

F7.4

The social services system appears to be too focused on central government as a source of new ideas, and as a gatekeeper of which ideas are trialled. This limits the size and diversity of the pool of new ideas available to commissioning organisations. The system needs to do more to permit and encourage trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, service users and communities.

F7.5

Many social services currently involve risk-averse government agencies contracting for services from not-for-profits who are unable to take on the risk of innovation. The combination stifles innovation.

F7.6

Innovation is risky and sometimes costly. Not-for-profit organisations cannot easily raise funds for investments. As a result, access to capital and limited cashflow are significant barriers to innovation in parts of the social services.

F7.7

Many government contracts with social services providers are overly prescriptive. This stifles innovation.

F7.8

Good information that compares the performance of services using a common measure is crucial for building support for spreading successful innovation and eliminating poorly performing services

F7.9

Many not-for-profit organisations find it difficult to fund evaluation on top of service delivery and, in any case, lack the capability for good evaluation.

F7.10

Decision makers in the social services system lack good timely information on what is working, for whom and through which service providers. This undermines the ability of the system to learn and adapt.

F7.11

The standard programme-based approach to social services evaluation involves a trade-off between good evaluation practice, and cost and time. The standard evaluation approach may be best applied to larger programmes, or to experimental work that will likely lead on to larger-scale implementation.

F7.12

The current approach to evaluation in the social services fails to make cost-effective use of the wide range of information being generated by daily interaction between users and services.

Recommendations

R7.1

Organisations commissioning social services should set payments at a level that allows an efficient provider to make a sustainable return on resources deployed. This will give providers the confidence and greater capacity to invest in innovation.

R7.2

Organisations commissioning social services should look for opportunities to contract providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should own the intellectual property rights.

R7.3

Social services commissioning organisations should shift more contracting towards contracting for outcomes and make greater use of decentralised service models. Doing both would give providers increased flexibility and incentives to innovate.

R7.4

Government social services commissioning agencies should respect the confidentiality of innovative ideas that providers submit as part of a tender or otherwise. Where government agencies wish to spread an innovation that a third party creates, they should negotiate for the rights to do so.

R7.5

Government agencies should explore a variety of additional initiatives to encourage innovation in the social services. These could include innovation funds, prizes and in-house innovation labs.

R7.6

Superu should develop and adopt a set of principles for good evaluation and provide guidance to support those principles. When the Government funds social services evaluations, it should require adherence to those principles.

R7.7

Commissioning organisations and providers should monitor and evaluate in real time a much wider range of services than at present. This would enable commissioning organisations and providers to respond to trends as they emerge and offer significant improvements in efficiency and effectiveness

Chapter 8 – Leveraging data and analytics

Findings

F8.1

Cost-effectively collecting, sharing and analysing data across the social services system will greatly increase the capacity to design, commission and provide effective services. Better data and data analysis will help target resources to have a greater impact on improving outcomes.

F8.2

Social services have lagged behind many other service industries in adopting data-driven innovation.

F8.3

Establishing standards for data sharing and developing a client-centred data infrastructure covering many dispersed social services providers requires a collective solution across government agencies and social services organisations.

F8.4

Modern data technology and analytics can support a devolved approach to guiding investments in social services, by collecting and analysing data on service costs and on client participation in services and subsequent outcomes.

F8.5

Where individuals give consent, government agencies could give third parties, such as non-government organisations and academia, access to identifiable personal data to support the development and provision of innovative social services.

Recommendations

R8.1

The Social Sector Board should initiate a project to coordinate client-level operational data sharing to increase the scope, power and accuracy of the Government's investment approach to targeting social services. The work should follow the principles recommended by the New Zealand Data Futures Forum.

R8.2

Government social services agencies and social services providers should capture information on their clients and services in a consistent way. Doing so would allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

R8.3

The Government should require government social services agencies engaged in sharing personal data to adhere to the four guiding principles of value, inclusion, trust and control proposed by the New Zealand Data Futures Forum.

R8.4

The Government should set up governance arrangements that secure confidence and trust in the sharing of data across the social services, provide advice to government and data users on proposals for change, and develop best-practice guidance.

R8.5

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

R8.6

The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. This should, where individuals consent, include sharing identifiable personal data held by government agencies.

Chapter 9 – Investment and insurance approaches

Findings

F9.1

Decisions made using the Investment Approach are likely to be significantly correlated with what citizens care about, for those services and clients where the approach is applicable. Its wider adoption would likely lead to substantial improvements in the targeting of social services.

F9.2

Borrowing now to fund investments that will reduce future social welfare liability is good in principle, but has risks in practice. A higher burden of proof is required to justify such borrowing, relative to spending funded from current income.

F9.3

A social insurance model aligns the long-term incentives of insurers and their members. Because social insurers face the long-term costs of service decisions, they have the incentives to make sound decisions about early intervention and service quality.

F9.4

A social insurance model with multiple non-government insurers has good opportunities and incentives for innovation, and may out-perform models with a single government insurer. Such models face difficult design and transition issues.

Recommendations

R9.1

The Investment Approach could usefully be applied more widely. Future welfare liability – its underlying proxy for social return – should be further refined to better reflect the wider costs and benefits of interventions.

R9.2

The Investment Approach should be extended to operate at a cross-programme, cross-agency level.

Chapter 10 – Service integration

Findings

F10.1

Coordinating the provision of multiple services to the same client is unlikely to work without agreement on what services the client is eligible for and which provider will take the lead. The lead can come from a service provider, a navigator, the service user or a service professional such as a lead maternity carer.

F10.2

The fragmentation of social services to the detriment of clients with complex needs is a long-standing issue that has proven difficult to resolve despite many attempts.

F10.3

Integrating services has costs as well as benefits. The challenge is to weigh these up so as to make a judgement about what type and how much integration is optimal.

F10.4

Integration is more likely to be beneficial where:

- services are linked together as a chain of services;
- clients, families or communities experience clusters of related problems; and
- the people doing the integrating are willing to work together and trust each other.

F10.5

A common phenomenon is governments undertaking multiple and overlapping integration initiatives, resulting in confusion, frustration and strain on scarce resources.

Recommendations

R10.1

Governments and service-commissioning agencies should consider whether service fragmentation is a symptom that could be most effectively dealt with by changing their institutional-design and commissioning choices.

R10.2

The Government should adopt a cautious approach to directing service integration from the centre, and should instead focus on ensuring that institutions and commissioning arrangements provide opportunities for bottom-up integration.

R10.3

Efforts to integrate social services should be attentive to organisational cultures that promote or impede integration, and should address problems through remedies, including promoting a common language and values across the system and providing opportunities for formal and informal interaction between organisations.

R10.4

The Government should assist providers to access and use operational data to improve service integration as part of investing in a better data infrastructure and safe data sharing for social services.

Chapter 11 – Client choice and empowerment

Findings

F11.1

Contracting out and in-house provision are common service models in New Zealand. These models give clients few choices around the *what, who, when, where* and *how* of service delivery.

F11.2

In-house provision and contracting-out models can provide little reward for providers that are responsive to the needs of clients. Under some contract structures, providers may be disadvantaged by providing a better service.

F11.3

The allocation of decision rights under in-house provision and contracting-out models often casts clients as passive recipients of services, rather than active participants in decisions that impact their lives.

F11.4

In many instances clients, rather than government officials, have the best understanding of their individual needs and the combination of services they require. Clients are also often in the best position, with the support of family, friends and whānau, to integrate the services they receive.

F11.5

Giving clients choice and control over the *what, who, when, where* and *how* of service delivery leads to a better fit between client needs and the services they receive. A better fit means that more public money is spent on services that clients value, and less on those they do not.

F11.6

Giving clients choice and control over the *what, who, when, where* and *how* of service delivery provides a mechanism through which both providers and clients can experiment with, and learn from, trying different approaches to service delivery.

F11.7

At a system level, giving clients choice and control over the *what, who, when, where* and *how* of service delivery creates an incentive for providers to be responsive to client needs and to lift the quality of the services they offer.

F11.8

International evidence suggests most clients experience an increased level of satisfaction after moving from agency-directed to client-directed models of social services provision.

F11.9

Some studies have reported positive health outcomes when clients shift from agency-directed to client-directed service models. However, in general the evidence for such health improvements is weak.

F11.10 If good practices are used, most clients of social services programmes can and do exercise choice when given the opportunity.

F11.11 There is little evidence to support the claim that client direction leads to a decline in the quality of services that clients receive.

F11.12 There is little evidence to support the claim that client direction is any more or less open to fraud or misuse than agency-directed models of social service delivery.

F11.13 Available evidence indicates that client-directed models can be more expensive than agency-directed models, especially if they are not well planned and executed.

F11.14 There is limited evidence on the impact that client-directed budgets have on workers. Available evidence suggests that impacts will be highly dependent on the design of the programme and on the level of government funding available.

Recommendations

R11.1 When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society. Disability support services, home-based support of older people, respite services, family services, and drug and rehabilitation services are good prospects.

Chapter 12 – Better purchasing and contracting

Recommendations

R12.1 The Government should give an agency the task of developing a single set of up-to-date guidelines for agencies entering into contracts with non-government providers of social services. That agency should provide training on these guidelines to other agencies and providers.

To encourage agencies to use the guidelines, the Government should:

- provide training about the revised guidelines to relevant agencies and providers;
- require agencies entering a contract to sign a declaration that they have used the guidelines; and
- assess agencies' management of contracts with non-government providers in the Performance Improvement Framework reviews of agencies.

R12.2

To improve tendering practice, government agencies should face new requirements to:

- undertake reasonable consultation with providers and clients during the pre-contract phase;
- report yearly their compliance with tendering timelines;
- take account of the past performance of bidders when assessing bids. If agencies intend to ignore past performance, they should publish at the start of the tendering process the reasons why they are doing so;
- consider standardising tendering requirements, but standardisation should not be mandatory;
- develop, in consultation with providers, a risk management framework that identifies risks and how best to allocate them; and
- set contract duration in the context of their overall risk management framework, and taking into account factors such as providers' incentives to invest in relevant capabilities and equipment.

Government agencies should publish their reasons for selecting a particular contract duration.

R12.3

Departments, agencies and non-government providers should expand the use of contracting for outcomes where it is efficient to do so.

R12.4

The Government should improve the capabilities of agencies to contract for outcomes, ideally with payments for outcomes achieved in those contracts.

R12.5

Government agencies should:

- adopt a risk-based approach to monitoring contracts as part of their risk management framework; and
- publish the reasons for their chosen monitoring arrangements, including an analysis of the costs and benefits to all parties.

R12.6

The State Services Commission should develop a set of minimum expectations around the promotion of contract management capability, and require the statements of intent of relevant agencies to demonstrate how they will meet those expectations.

Chapter 13 – The Māori dimension

Findings

F13.1

Where the Treaty places duties on the Crown to take particular actions in social services in relation to Māori, these duties are in addition to, rather than a substitute for, ordinary good process.

F13.2

The Treaty settlement process is not well suited to exploring opportunities for Māori groups to have greater involvement in social service commissioning, especially as New Zealand moves into a post-settlement era.

Recommendations

R13.1

The Government should create a standing opportunity for Māori groups to initiate negotiations to increase participation in commissioning social services, outside the Treaty settlement process.

Chapter 14 – Implementation

Recommendations

R14.1

A small and cohesive committee of ministers drawn from relevant service delivery and central portfolios should be responsible for leading the Government's reform of the social services system.

R14.2

The Government should establish an Office for Social Services, preferably within a central agency, to:

- help ministers to develop the overall reform strategy and oversee its implementation;
- develop whole-of-system data and analysis – both performance data and diagnostics identifying priorities;
- undertake research on system-wide issues and provide advice to the Social Sector Board of chief executives and to the relevant ministers;
- undertake evaluations of the performance of the social services system;
- provide advice and design guidance for agencies engaged in commissioning; and
- promote continuous improvement and the development of capability across the system.

The Office would need clear terms of reference that steer it towards favouring customer-centred, devolved and data-rich approaches and whole-of-system thinking.

R14.3

To strengthen the incentives for reforming the social services system, the Government should:

- establish a Ministerial Advisory Board to report publicly on the Government's progress in reforming the social services system;
- remove unnecessary barriers to reform;
- provide positive incentives for improvement;
- expand the measurement and public reporting of the return on investment in social services programmes;
- establish a programme for reviewing social service programmes against specified criteria; and
- seek beneficial opportunities to undertake joint benchmarking of social services, such as through participating in the Australian Report on Government Services.

The government agencies responsible for social services programmes should commission the reviews. Reviews should be overseen by independent steering committees, published and subject to assessment by the Ministerial Advisory Board;