

NEW ZEALAND  
PRODUCTIVITY COMMISSION  
Te Kōmihana Whai Hua o Aotearoa



# More effective social services

Summary version

August 2015

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

# **More effective social services**

## **Summary version**

**September 2015**

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

Date: September 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.

To find out more about the Commission, visit [www.productivity.govt.nz](http://www.productivity.govt.nz), or call +64 4 903 5150.

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### Inquiry contacts

<b>Administration</b>	Robyn Sadlier T: +64 4 903 5167 E: <a href="mailto:info@productivity.govt.nz">info@productivity.govt.nz</a>	<b>Website</b>	<a href="http://www.productivity.govt.nz">www.productivity.govt.nz</a>
		<b>Twitter</b>	@nzprocom
<b>Other matters</b>	Dave Heatley Acting Inquiry Director T: +64 4 903 5158 E: <a href="mailto:dave.heatley@productivity.govt.nz">dave.heatley@productivity.govt.nz</a>	<b>LinkedIn</b>	NZ Productivity Commission

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

# Foreword

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

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

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

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

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

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

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



MURRAY SHERWIN

Chair

August 2015

# Terms of reference

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

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

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

### Context

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

### Purpose and Scope

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

#### What institutional arrangements would support smarter purchasing/commissioning?

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

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

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

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

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

### **Analysis and Recommendations**

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

### **Consultation**

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

### **Timeframes**

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

### **Referring Ministers**

Hon Bill English, Minister of Finance

Hon Dr Jonathan Coleman, Minister of State Service

<sup>2</sup> The inquiry timeframe was subsequently extended to 31 August 2015.



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# Overview

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

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

## Social services cater for people in different circumstances

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

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

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

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

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

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

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

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

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

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

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

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

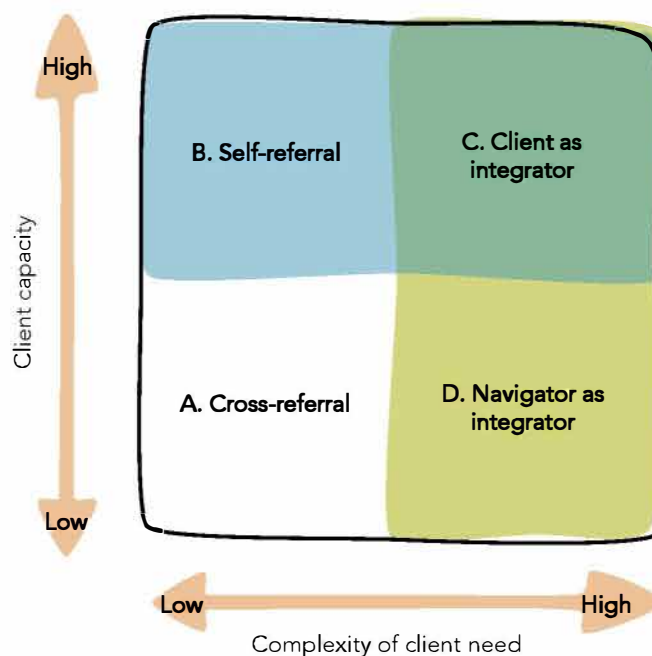
The situation is quite different for clients with complex needs – particularly when these needs are inter-dependent so that treating some needs but not others is likely to be ineffective. A significant degree of coordination across the services is required for good outcomes. Unfortunately, the provision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

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

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

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

**Figure 0.1 Characteristics of clients of the social services system**



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

New Zealand also suffers high rates of:

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

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

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

## The Commission's approach

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

The inquiry drew on evidence from many sources including:

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

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

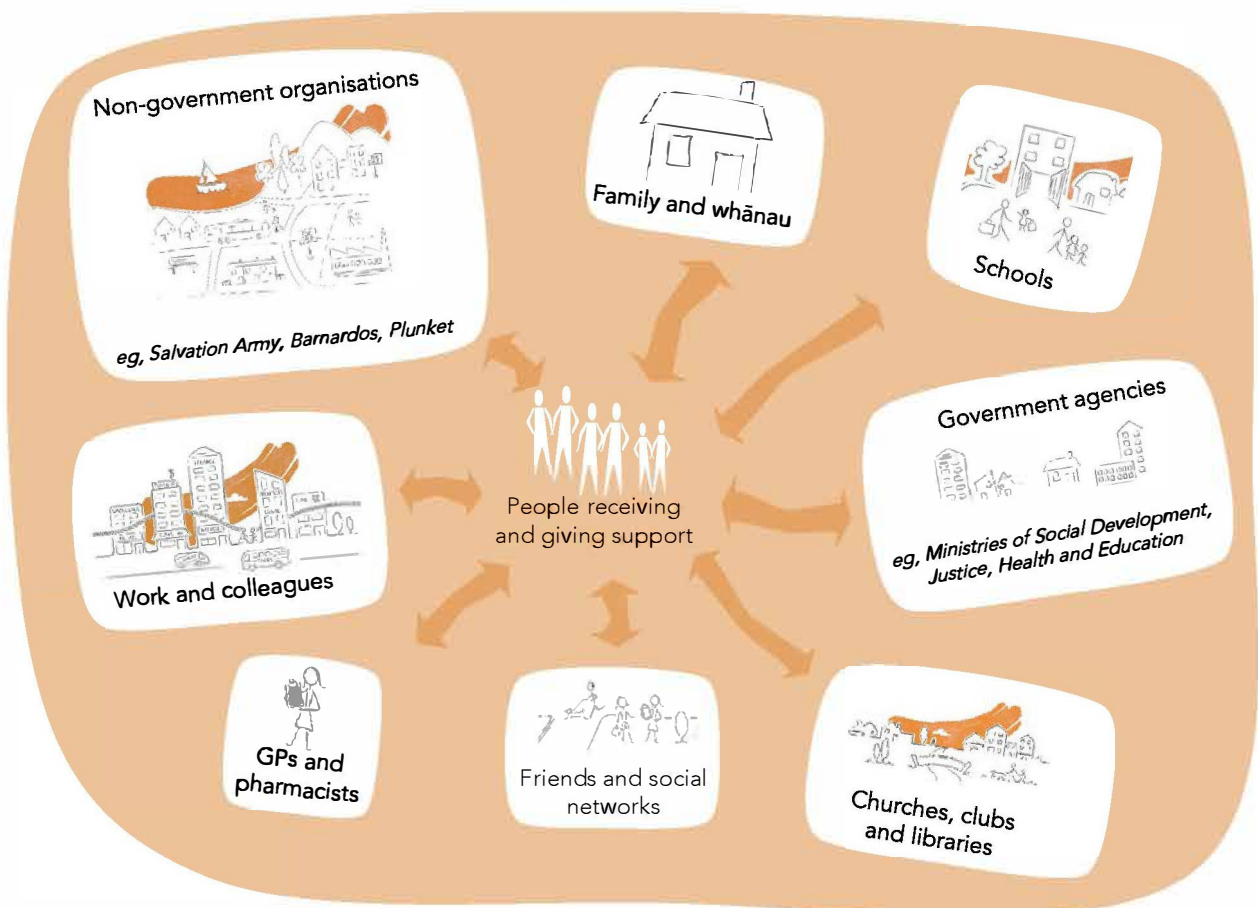
## Social services in New Zealand

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

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

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

**Figure 0.2 Elements of the social services system**



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

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

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

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

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

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

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

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<sup>5</sup> This excludes income support and benefit payments.



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

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

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

## New ideas in New Zealand and elsewhere

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

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

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

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

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

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

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

## Poor system performance and its causes

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

## Designing the system architecture

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

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

Two broad architectural designs are applicable to social services.

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

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

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

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

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

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

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

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

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

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

## System stewardship and the enabling environment

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

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

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

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

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

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

## Better commissioning of services

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

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

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

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

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

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

## Seven service models for delivering social services

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

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



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

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

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

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

## Funding practices

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

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

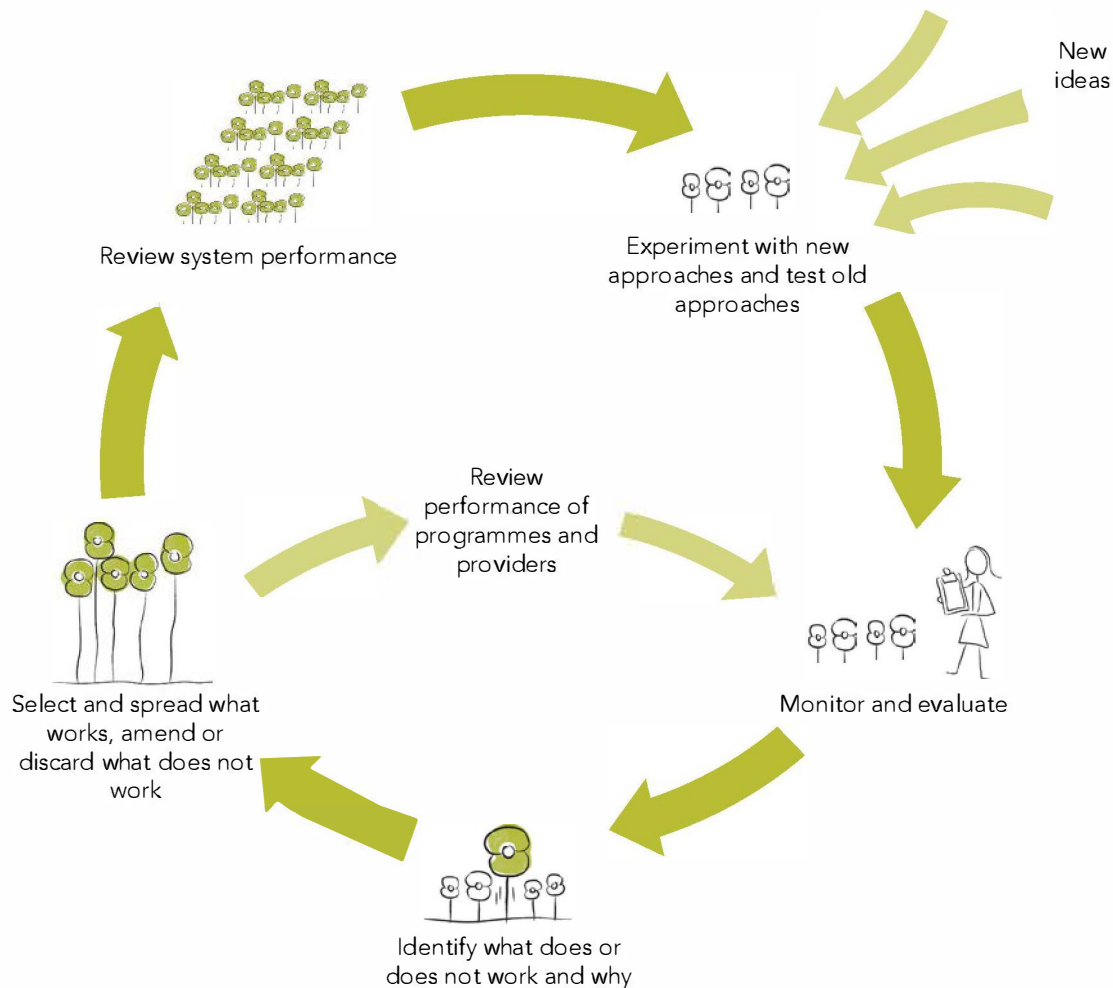
Government appears to underfund some contracts with non-government providers for the delivery of fully specified social services. Long-term underfunding has undesirable consequences. Payments should be set at a level that allows an efficient provider to make a sustainable return on resources deployed.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

## Creating a system that learns and innovates

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

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

**Figure 0.3 A system that learns**



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

A system that learns needs to have:

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

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

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

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

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

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

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

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

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

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

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

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

## Leveraging data to improve social services

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

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

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



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

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

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

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

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

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

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

## Social investment and insurance

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

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

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

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

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

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

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

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

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

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

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

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

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

## Integrating services for better outcomes

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

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

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

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

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

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

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

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

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

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

## Empowering clients and giving them more choice

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

- *what* services to deliver;

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

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

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

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

**Figure 0.4 Empowering clients to make core choices**



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

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

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

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

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

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



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

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

## Better purchasing and contracting

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

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

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

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

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

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

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

When contracting out, social services agencies should:

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

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

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

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

## The Māori dimension

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

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

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

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

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

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

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

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

## Implementing change

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

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

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

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

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

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

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

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

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

## Key recommendations for making a difference

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

**Table 0.1 Key recommendations**

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



## Introduce a new deal for the most disadvantaged New Zealanders

### Recommendation 10.2

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

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

### Recommendation 10.3

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

## Improve commissioning and contracting

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

### Recommendation 6.1

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

### Recommendation 6.6

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

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

### Recommendation 6.11

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

### Recommendation 6.14

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

### Recommendation 12.2

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

### Recommendation 12.7

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

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

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

### Recommendation 7.2

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

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

### Recommendation 7.8

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

### Recommendation 8.2

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

### Recommendation 9.1

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

### Recommendation 9.4

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

## Improve system stewardship

### Recommendation 5.3

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

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

**Recommendation 14.1**

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

**Recommendation 14.2**

The Government should establish a Transition Office to:

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

## The size of the prize

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

### Benefits to individual clients

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

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

### Benefits to service providers

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

### Benefits to government

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

### Benefits to the economy

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

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

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

### **Benefits to wider society**

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

### **Shared leadership is required**

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

# Findings and recommendations

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

## Chapter 2 – Social services in New Zealand

### Findings

**F2.1**

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

**F2.2**

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

**F2.3**

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

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

**F2.4**

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

**F2.5**

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

**F2.6**

Better alignment and coordination of services would improve client outcomes.

**F2.7**

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

**F2.8**

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



**F2.9**

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

**F2.10**

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

## Chapter 3 – New ideas in New Zealand and elsewhere

### Findings

**F3.1**

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

**F3.2**

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

**F3.3**

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

## Chapter 4 – An assessment of the social services system

### Findings

**F4.1**

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

**F4.2**

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

**F4.3**

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

F4.4

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

F4.5

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

F4.6

There is useful information at all “levels” of the social services system, but decision makers frequently lack important information required to make good decisions.

F4.7

Government agencies have overlooked their potential to shape and manage the market for social services contracts. Consequently, the provider side of the market is distorted and underdeveloped in some areas.

F4.8

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

F4.9

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

F4.10

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

F4.11

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

## Chapter 5 – System architecture

### Findings

F5.1

Top-down control emphasises standardisation and risk management, but has significant limitations. Using more devolved approaches may achieve substantial improvements in the performance of social services.

F5.2

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

F5.3

Devolution of responsibility for social services to semi-autonomous government entities can lead to better outcomes than direct ministerial control. Such entities typically have better information and incentives to make and implement decisions that maximise social returns.



**F5.4**

Multi-category appropriations and other mechanisms added in 2013 to the Public Finance Act 1989 are useful additions to the budget appropriation system. Yet these mechanisms are not sufficient to provide flexibility at the interface between providers and clients. Such flexibility is required to tailor services for clients with multiple, complex problems.

**F5.5**

System architecture and the enabling environment require active management for social services to be effective. This active management should be the responsibility of a *system steward*. The current arrangements fall short of what is required for good system stewardship.

## Recommendations

**R5.1**

To improve innovation and outcomes from social services the Government should make greater use of devolution in the social services system.

**R5.2**

The Government should take account of the role and value of volunteers as an important part of social services when drafting new legislation. It should seek to understand the consequences for volunteering of new legislation, and ensure that intended benefits are not outweighed by unintended costs.

**R5.3**

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

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

## Chapter 6 – Commissioning

### Findings

**F6.1**

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

F6.2

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

F6.3

Commissioning organisations need to define clearly why they are consulting, and design their consultation programme to satisfy that objective. They should target those most affected by the service and match the amount of consultation to the size and complexity of the service, and to the value expected from consultation.

F6.4

“Make versus buy” is an unhelpful question in social services. It frames the options too narrowly, and risks missing the most effective service model.

F6.5

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

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

F6.6

The *trust* service model capitalises on the intrinsic motivation and professional behaviour of providers. This model requires careful design to ensure sufficient peer monitoring and regulatory oversight, and works best with hard budget limits and strong client voice.

F6.7

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

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

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

F6.8

The voucher service model is in common use in New Zealand. The essential characteristic of this model is that client choice of providers drives the allocation of funds to those providers from government. This process may be largely invisible to clients. Examples include early childhood education, universities and general practice.

F6.9

Social bonds stimulate innovation by government agencies sharing risk with investors and linking payments to outcomes without prescribing programmes in detail. They may be most useful in stimulating experimentation and testing the effectiveness of new approaches. They may not be suitable for wide application across social services.

**F6.10**

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

**F6.11**

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

**F6.12**

Government is the major funder and purchaser of social services. Its commissioning and purchasing decisions substantially determine the depth, quality and sustainability of providers and potential providers.

**F6.13**

Contracts for social services are relationship-intensive, reflecting difficulties in service specification and monitoring.

**F6.14**

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

**F6.15**

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

**F6.16**

Properly implemented, the cost implications for government of the inquiry's recommendations should be neutral or positive over time. Any timing and front-end cost questions should be handled within an investment framework.

## Recommendations

**R6.1**

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

**R6.2**

Commissioning organisations should always consider client-directed service models, as they empower individuals and can lead to more effective services. (These models are most applicable for clients in quadrants B and C.) Where other service models are used, clients should be able to exercise choice as far as possible (as long as the benefits for clients outweigh costs).

**R6.3**

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

**R6.4**

In some instances government agencies have tens or hundreds of contracts with providers for similar services. In such instances, agencies should consider engaging one or more lead providers to manage government's supply chain of smaller non-government providers.

**R6.5**

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

**R6.6**

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

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

**R6.7**

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

**R6.8**

The Government should appoint an arbitrator for disputes over pricing in social services contracts that are not resolved through direct negotiations. Using the Treasury guidance on pricing, the arbitrator should attempt mediation, and impose a final and binding decision should mediation fail.

**R6.9**

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

**R6.10**

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

**R6.11**

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

**R6.12**

The Government should support the development of a social services commissioning community of practice and encourage commissioning organisations to participate.

**R6.13**

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

**R6.14**

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



## Chapter 7 – A system that learns and innovates

### Findings

**F7.1**

Devolved service models foster diversity, innovation and learning in the social services system. If well designed, devolved service models promote the selection and expansion of effective services and the curtailing of less effective services.

**F7.2**

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

**F7.3**

Currently government agencies have a dominant role in deciding which new ideas should be selected for further development, supported with government funds and applied in the social services system. A more devolved system architecture and devolved service models would better encourage the spread of successful new ideas. More trialling of new ideas from social entrepreneurs, philanthropists, non-government providers, clients and communities would help lift system effectiveness.

**F7.4**

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

**F7.5**

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

**F7.6**

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

**F7.7**

The current approach to evaluation in social services fails to make cost-effective use of the wide range of information being generated by daily interaction between clients and services. Such information is often not collected or not linked, so limiting its usefulness.

**F7.8**

Many parts of the social services system lack a systematic, structured approach to evaluation. Major government programmes are often not adequately evaluated. Evaluation is often not built into the design and implementation phase of new programmes. When programmes are evaluated, negative results are sometimes suppressed. Evaluations often are of narrow scope and fail to look at system-wide and long-term costs and benefits.

**F7.9**

Many not-for-profit providers find it difficult to fund evaluation on top of delivering services and, in any case, lack the capability to carry out good evaluation.



## Recommendations

**R7.1**

Organisations commissioning social services should look for opportunities to engage providers to design and try out innovative service designs. This will promote learning about what approaches are most effective in achieving desired outcomes. Where the Government specifies and directly funds the development of innovation, it should have the right to share the innovation more widely in the social services system.

**R7.2**

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

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

**R7.3**

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

**R7.4**

This inquiry is recommending greater use of devolution. Commissioning organisations should promote and monitor the spread of innovation in devolved systems. They should choose and refine services models to increase the spread of innovation.

**R7.5**

Commissioning organisations and providers of social services should use a wider range of data sources to monitor and evaluate service performance in real time. Then they could respond to trends promptly and so achieve significant improvements in efficiency and effectiveness.

**R7.6**

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

**R7.7**

Superu has developed a protocol for the publication of social science research and evaluation products conducted or commissioned by government. The Government should require all government agencies that produce or commission social science research and evaluation to adhere to this publishing protocol.

**R7.8**

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

## Chapter 8 – Leveraging data and analytics

### Findings

F8.1

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

F8.2

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

F8.3

The social services system has many dispersed and small providers. Government agencies and social services providers need to collaborate to establish standards for data sharing and to develop a wide-access, client-centred data network.

F8.4

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

F8.5

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

### Recommendations

R8.1

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

R8.2

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

R8.3

The Social Sector Board should undertake a project to share client-level social sector data to increase the scope, power and accuracy of the Government's investment approach to funding and targeting social services.

R8.4

The Social Sector Board should design and oversee the implementation of a system for government social services agencies and social services providers to capture information on their clients and services in a consistent way. This should allow commissioning organisations, providers and evaluators of services to track clients' use of services across time, and so identify service outcomes and provider performance.

R8.5

The Social Sector Board should set up governance arrangements that:

- secure confidence and trust in the sharing of data across the social services; and
- provide a source of independent advice to government and data users on proposals for data linking and sharing across the social services system.

**R8.6**

The Government should seek partnerships with non-government organisations and universities to use data sharing and analysis to create new solutions to difficult-to-solve social problems. Where individuals give fully-informed consent, this could include sharing their personal data held by government agencies.

## Chapter 9 – Investment and insurance approaches

### Findings

**F9.1**

The outcomes sought by the Ministry of Social Development's Investment Approach are likely to align with what citizens care about. The wider adoption of an investment approach would lead to substantial improvements in the targeting of social services.

**F9.2**

Borrowing now to fund investments that are expected to reduce future social welfare liability is good in principle, but has risks in practice. Both social and economic costs placed on future generations have implications for inter-generational equity.

**F9.3**

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

**F9.4**

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

**F9.5**

A combination of the full inter-temporal version of the investment approach, a devolved architecture and client enrolment would offer a long-term view of both finances and client welfare, and provide organisations with the right incentives to guide effective early intervention. Such a combination is more attractive than social insurance models.

### Recommendations

**R9.1**

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

**R9.2**

The investment approach's underlying goal of greatest improvement in social value for each unit of resource deployed risks excluding some clients from receiving any service. This goal should be combined with explicit criteria that give clients access to at least a minimum level of service.

**R9.3**

The models underlying the Ministry of Social Development's Investment Approach, and future applications of the investment approach, should be open and subject to independent actuarial and economic scrutiny. This would help build public confidence in the approach.

**R9.4**

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

## Chapter 10 – Integration for more effective services

### Findings

**F10.1**

Integrating services has costs as well as benefits that vary according to circumstances. Commissioning organisations and service providers need to weigh up the costs and benefits when deciding on how much integration to pursue and by what means.

**F10.2**

The fragmentation of social services is a long-standing issue that has proven difficult to resolve despite many attempts.

**F10.3**

Multiple and overlapping integration initiatives designed and initiated by government social services agencies can result in confusion, frustration and a strain on scarce resources.

**F10.4**

The persistent influence of administrative silos has hampered current approaches to integrating services to the most disadvantaged New Zealanders (quadrant D). Current approaches generally do not devolve decision rights over an adequate budget to those working with clients. Multiple integration initiatives targeted at the same clients have compounded these problems.

**F10.5**

The Better Lives agency and District Health and Social Boards models each have potential to improve the effectiveness of social services for the most disadvantaged New Zealanders – those with multiple, complex needs who need help with navigating services.

### Recommendations

**R10.1**

Government social service agencies should seek further opportunities to improve service efficiency and effectiveness through client-centred service integration initiatives in those parts of the social services system that have complex inter-connected pathways. This should build on lessons from initiatives like those at the Canterbury District Health Board and the Hutt Valley Justice Sector Innovation Project.

**R10.2**

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

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

**R10.3**

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



## Chapter 11 – Client choice and empowerment

### Findings

F11.1

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

F11.2

In-house provision and contracting-out models typically offer little reward to providers for being responsive to the needs of clients.

F11.3

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

F11.4

In many instances clients, rather than government officials, have the best understanding of their own needs and the combination of services they require. (Such clients are typically in quadrants B and C.) Clients are also often in the best position, with the support of family/whānau and friends, to integrate the services they require.

F11.5

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

F11.6

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

F11.7

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

F11.8

Giving clients choice and control over the *what, who, when, where* and *how* of service delivery provides a mechanism for integrating services. Integration will be greatest when clients have access to a pool of funds (or services) from different agencies.

F11.9

Compared to some other OECD countries, New Zealand has been slow to adopt client-directed budgets in areas other than disability support.

F11.10

Most clients experience an increased level of satisfaction after moving from top-down service models to client-directed service models.

F11.11

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

F11.12

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



**F11.13**

Little evidence is available to support concerns that client direction leads to a decline in the quality of services that clients receive.

**F11.14**

There is little evidence that client direction is any more open to fraud or misuse than other models of social services delivery.

**F11.15**

The cost of client-directed service models relative to other models is difficult to determine. However, the most recent New Zealand study suggests that, over time, costs for users of Individualised Funding (IF) fall below those of comparable non-IF users.

**F11.16**

Limited evidence is available on the impact of client-directed budgets on the conditions of workers. Submissions to this inquiry suggest the pay and conditions of workers employed under Individualised Funding are better than comparable workers employed under the contracting-out model. The Commission has not received convincing evidence that contradicts these submissions.

## Recommendations

**R11.1**

When commissioning services, the Government should look to empower clients where such empowerment would not be detrimental to the client or the broader interests of society.

**R11.2**

The Government should investigate, and where appropriate trial, client-directed service models for home-based support of older people, respite services, family services, and drug and alcohol rehabilitation services.

**R11.3**

The Government should pursue further extension of client choice in disability support, drawing on the lessons from Enabling Good Lives.

## Chapter 12 – Better purchasing and contracting

### Findings

**F12.1**

The framework within which contracting for social services takes place consists of three important documents: the Government Rules of Sourcing and the Treasury and Office of the Auditor-General guidelines. These documents were developed at different times and are not consistent. This creates confusion for social services agencies.

### Recommendations

**R12.1**

To improve clarity, the Government should publish separate Rules of Sourcing for Social Services. These rules should make it explicit that contracting out is just one of a number of models available for the purposes of commissioning social services, although contracts may be used with other models as well.

**R12.2**

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

**R12.3**

The recommended Rules of Sourcing for Social Services (and their supporting guidelines) should make it clear that relevant information should be provided to all participating suppliers in tender processes.

**R12.4**

Social services agencies should report annually on their compliance with the timelines and deadlines set out in tendering documentation.

**R12.5**

The recommended Rules of Sourcing for Social Services should incorporate a requirement for agencies to take account of the past performance of bidders when assessing bids. The requirement should enable agencies to ignore past performance only under exceptional circumstances and if they publish their reasons at the start of the tendering process.

**R12.6**

Government agencies should apply a standard duration of three years to social services contracts unless their risk analysis indicates that a shorter or longer duration is better suited to the purpose of the contract. If the agency chooses a different duration they should publish their reasons.

**R12.7**

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

**R12.8**

Government agencies should structure their monitoring and reporting requirements according to an assessment of risks related to the results or outcomes they seeking.

## Chapter 13 – The Māori dimension

### Findings

**F13.1**

Creating opportunities for Māori groups to exercise mana whakahaere in delivering social services has the potential to both improve outcomes and lead to more effective exercise of rangatiratanga. More devolution of commissioning decisions to Māori would help create such opportunities.

**F13.2**

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

**F13.3**

The Treaty settlement process is not necessarily well suited to exploring opportunities for Māori groups to have greater involvement in social services commissioning.

### Recommendations

**R13.1**

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

**R13.2**

The Government should let Māori propose arrangements within or outside the Treaty settlement process for devolved commissioning, rather than co-opt Māori groups into a process, or impose a process on them.

## Chapter 14 – Implementation

### Recommendations

**R14.1**

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

**R14.2**

The Government should establish a Transition Office to:

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

**R14.3**

Developing a new approach for engaging with and delivering services for disadvantaged New Zealanders (as outlined in Chapter 10) should receive high priority from the Ministerial Committee in the reform plan. The Transition Office should be tasked with leading this development.

**R14.4**

The Government should enhance the role of Superu, so that it can act as an effective independent agency responsible for ongoing monitoring, researching and evaluating the performance of the social services system.

The Government should investigate whether legislative change is needed to support this expanded purpose and initiate any required amendments.

**R14.5**

The Government should establish an Advisory Board to provide the Ministerial Committee with independent expert advice, from a wide range of system participants, about the design of the system and progress towards implementation.

**R14.6**

The Transition Office should report publicly on reform plan progress every six months. Each progress report should be accompanied by an independent commentary from the Advisory Board.

**R14.7**

The Social Sector Board and the Transition Office should develop a memorandum of understanding setting out their respective roles, how they will work together, and how they will resolve any uncertainties about their respective roles.

**R14.8**

In establishing the Ministerial Committee for Social Services Reform, the Government should review existing social-sector ministerial committees with the aim of removing duplication and streamlining their operation.

**R14.9**

The Government should initiate a multi-year review of the major social services programmes against clearly specified evaluation criteria. Reviews should be independently assessed by Superu and published.

**R14.10**

The Government should seek opportunities to undertake benchmarking of social services, such as through participating in the Australian *Report on Government Services*.





