

NGO Council Future Focus: Summary of Service Commissioning Models, July 2016

This is a summary of a discussion paper written for the NGO Council by Richard Clarke. The full version is available online at:

<http://ngo.health.govt.nz/what-we-do/priorities-and-issues/planning-and-funding>

The release of the NZ Health Strategy is an opportunity for the NGO Council and the sector to contribute to policy development and exploration of different approaches to commissioning.

Social service commissioning models are changing. The Government is working to improve the traditional contracting model, is applying alliance contracting and the Whanau Ora model, and is developing the investment approach. The MoH wishes to further improve contracting arrangements and to shift from the current focus on inputs and outputs towards focusing on outcomes. The Ministry also wants to consider a wider range of service models (including increased use of client-directed budgets and, more speculatively, social impact bonds) and to look for opportunities for joint commissioning. NGOs usually have little choice about which model they operate within, however each model presents different challenges and opportunities they need to consider.

Four main service commissioning models

NGOs have considerable experience with the **contracting model**, which is the most widely used approach for delivering social services in New Zealand. Well-designed contracts create incentives for good performance. However, NGOs have been concerned that contracts are too prescriptive, with short contract periods and excessive reporting requirements, and are issued on a 'siloed' basis that discourages integration. The shift towards outcome-based contracting to encourage innovation and streamlined contracting processes is a response to these concerns, but is creating new challenges for NGOs to succeed in an outcomes framework. Experienced NGOs working in the contracting model have potential to take on a lead contracting role, but must manage potential conflicts of interest.

The **shared goals model** relies on the intrinsic motivation of organisations, including NGOs, and their personnel who are near to clients to work together to share information, resources and expertise for the benefit of their clients. Achieving this requires sophisticated governance arrangements to ensure the accountability and commitment of all of those involved. This means that NGOs working in a shared service model need to have particular regard and capability for developing governance arrangements for sharing and rewarding risk between the various partners. When these conditions exist, the shared goals model encourages integration of different services.

Under the **client-directed budget model**, instead of competing for Government contracts, providers compete for customers who can switch between them. Succeeding in a client-directed budget model requires that NGOs have the capacity to build new relationships with clients, to develop and manage individual support packages and to operate effectively in a more competitive environment. The model places service users in control, and can create pressure for integration, depending on the breadth of the services included within the scheme and between which consumers can choose. It is not suited to situations where consumer empowerment is not feasible. NGOs need to be involved in the challenging task of designing new markets and need to have financial models that can cope with

fluctuations in client demand, as there are risks that services might cease in a time of low demand – ultimately reducing client choice.

A **social impact bond** is a financial mechanism in which investors pay for interventions to improve a social outcome, with the government commissioner repaying the investors for their initial investment plus a return for risk, but only if the outcome improves. The attractions of this approach, which is being piloted in New Zealand, are that its outcome-focus encourages integration and innovation; there are built-in efficiency incentives; and it brings in private sector funding. However, the approach only works where outcomes are measurable and baseline data exists. Risk allocation is complex and there are high negotiation costs. To succeed in this approach, NGOs would need to be closely involved in negotiations around social impact bonds to ensure that they do not end up bearing unacceptable risks by, for example, having a large proportion of their payment linked to outcomes beyond their control.

NGOs operating under any of the four key models need to:

- demonstrate their capacity to deliver outcomes and explain their distinct competence;
- work closely with commissioning agencies to ensure that outcomes and outcome indicators are realistic, measurable and meet the needs of customers;
- understand how to manage and leverage their finances;
- understand how new technologies can help achieve results and efficiencies;
- understand the risks involved in differing commissioning arrangements and how they are allocated between providers, funders and clients.

Some small or new NGOs may not have capacity to meet all these success factors, so the Ministry of Health and NGO Council could focus their capability building activity (prioritised in the [Framework for Relations](#)) on these areas.