



Report Title:	Improving performance: management of innovation, management of common functions, and management of complex cases		
Report No:	MoSR 2024-0361		
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To:	Hon Nicola Willis, Minister for the Public Service		
Actions Sought:	Note the contents of this briefing Discuss feedback with officials as needed	Due Date	As needed
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Contact No:	9(2)(a) privacy		
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Security Level:	IN CONFIDENCE		

Purpose

1. You requested more proactive advice on areas of strategic interest as part of your feedback through the Commission's annual survey of satisfaction with our policy advice.
2. The government has set strong expectations for improved public sector performance, in a context of fiscal restraint. There are several competing theories for how to maximise performance, and some of these are in tension.
3. Three topics of recent ministerial interest, covered in the following sections, have been:
 - a. the management of innovation, especially how the public service can create and implement bold ideas;
 - b. the management of common functions, like office accommodation, digital technologies; and
 - c. the management of complex social cases to improve long-term outcomes.
4. Each section contains short case studies for informing the context of the discussion. The purpose of this pack is to introduce a range of ideas for discussion, without providing formal advice on any specific cases or imminent decisions. We have therefore not included cases that are under current active consideration.

Executive Summary

Part 1: Freedom to manage

5. Central to all three topics is the question of where decision rights should lie – should decisions be made by ministers, central agencies, department chief executives, or closer to the 'front line'?

6. In the 1980s New Zealand implemented a public administration approach that can be broadly classified as 'freedom to manage.' Freedom to manage refers to the setting of clear performance objectives by ministers, the managerial autonomy to pursue those objectives (control over operational decisions and resources, without prescribed administrative rules), and accountability for what is produced.
7. Greater freedom to manage typically supports greater innovation and adaptability, and allows public servants to be held responsible for what they produce. However, it can also lead to unpredictability and variability, restrict interoperability, inhibit the development of specialist capability, and contribute to diseconomies of scale. Deciding which decisions should be made by which parties should be calibrated to maximise the benefits and reduce costs.
8. It may be time to reset practices relating to freedom to manage. The public management model has become more complicated through the gradual accretion of changes, and arguably disciplines have weakened regarding the setting of performance objectives and measuring what has been produced.

Part 2: Management of innovation

9. Private sector literature since the 1960s and public sector literature since the 1980s have promoted freedom to manage as a key driver of innovation.
10. Innovation involves ideas, implementation, and diffusion. International study on the New Zealand public service describes New Zealand as highly innovative, but lacking in evaluation and learning that would allow the diffusion and/or scaling of small-scale pilot programmes.
11. Key enablers that could maximise the value of innovation could include:
 - a. Resetting freedom to manage and renewing focus on setting clear objectives.
 - b. Clarifying with ministers/Cabinet which risks are acceptable, and which are not.
 - c. Creating a contestable fund to award grants to innovative proposals.
 - d. Centralised support for evaluation, and expectations that programmes will be evaluated before further investment decisions.
 - e. Centralised support for the transmission of lessons from local-level innovation, and the scaling and diffusion of successful innovations.

Part 3: Management of common functions

12. In many countries, bureaucratic rules specify how back-office functions should be organised and performed. In New Zealand, these decisions have been left to departments, resulting in a proliferation of different approaches.
13. Since 2011, New Zealand (and other Commonwealth countries) have experimented with designated roles for leadership of common functions (referred to as 'functional leads'). For example, the chief executive of DIA is also the Government Chief Digital Officer, and the chief executive of MBIE is also the Government Property Lead. These have evolved organically but are now a key component of how the public service is organised. It is timely to consider how this could be improved to better meet the government's objectives.
14. Key enablers that maximise capability and performance while achieving cost savings could include:
 - a. Setting clear objectives for functional leads.

- b. Developing governance models to ensure that functional leads are helping departments be more efficient and effective.
- c. Requiring functional leads to collect and report performance information about departments.
- d. Requiring central agencies to promote and elevate the profile of functional leads.
- e. Consider dedicated chief executives, rather than combining functional lead roles with department chief executive roles.
- f. Building shared capability platforms to provide access to training.
- g. In narrow cases, providing a specific mandate for functional leads to make decisions on behalf of departments accepting that this restricts freedom to manage.

Part 4: Management of complex social cases

- 15. The Social Investment approach has emphasised identifying and responding to a relatively small number of individuals and families with complex needs that disproportionately drive adverse outcomes in the community and government expenditure.
- 16. These 'complex cases' involve individuals and families with multiple challenges across the social welfare, health, education, and justice sectors. These cases have often proven intractable to past attempts at improvement. This is often because progress in one area is impeded by challenges in other areas. Successful interventions require a coordinated approach by public servants and external providers.
- 17. Because these cases typically involve a mix of services that vary between each case, it is often not practical to assign responsibility to an individual provider, whether government agency or external.
- 18. Progress requires a range of different professions and services working together. Such approaches are described as 'network' models and run contrary to the prevailing assumptions of the New Zealand public management system. Possible areas for further exploration include:
 - a. Signalling to agency chief executives that complex social cases are a government priority via a result/target that requires a cross-agency approach.
 - b. Ministerial leadership and championing of network approaches, providing 'air cover.'
 - c. Departments using a Social Investment approach to leverage data to identify complex cases.
 - d. Exploring how the lessons from past experiments with networks could be applied.
 - e. Requiring that complex cases have an agreed integrated management plan with milestones and evaluation.
 - f. Providing grant funding for experimental approaches to the management of complex cases.
 - g. Evaluating the use of grant funding in retrospect, to inform whether the government's investment position in that service or provider should be increased, decreased, or maintained.

Next Steps

19. We welcome the opportunity to discuss any of the parts of this paper in the New Year.
20. Further work will depend on your views, level of priority and emphasis, and what role you would like to the Commission to play. In each case, we have identified potential opportunities to strengthen the current settings – further work would be required to develop any of these into concrete proposals for ministerial or Cabinet decision.
21. This work has been developed within the Commission and without external engagement, and would need to be integrated with related work by other agencies. The Commission could take a lead/coordination role, or support other agencies to lead. For example:
 - a. To maximise the value of innovation, we could work with the Treasury regarding objective setting and funding options, the Social Investment Agency on supporting evaluation and the transmission/diffusion of lessons, and large operational departments and Regional Commissioners on barriers to delegated local decision-making.
 - b. To optimise the management of common functions, we could work with each of the current leads to conduct a more rigorous analysis of what has worked and what hasn't, to inform concrete actions on improvement.
 - c. To improve the management of complex cases, we could engage with work underway by the Treasury, Social Investment Agency, Te Puni Kōkiri, and social sector agencies.

Recommended Action

We recommend that you:

- a **note** the contents of this briefing.
 - b **discuss** your feedback with officials as needed.
 - c **agree** that Te Kawa Mataaho release this briefing in full once it has been considered by you.
- Agree/disagree.*

Hon Nicola Willis

Minister for the Public Service

Part 1: Freedom to Manage

22. Freedom to manage refers to the setting of clear performance objectives by ministers, the managerial autonomy to pursue those objectives (control over operational decisions and resources, without prescribed administrative rules), and accountability for what is produced.
23. This part provides some background information on the different dimensions of freedom to manage and its advantages and disadvantages. This is important context for later sections, which describe choices that increase or decrease agencies' freedom to manage.

Freedom to manage and its dimensions

24. Freedom to manage was first emphasised in public administration theory and practice in the 1980s and 1990s, in response to earlier theories and approaches which centred on the application of standardised rules (or 'bureaucracy'). Bureaucratic versus free is not a binary choice, and different jurisdictions are relatively more or less free across different dimensions.
25. There are three different dimensions of freedom to manage:
 - a. *Between ministers/Parliament and departments:* One dimension of freedom to manage involves the convention that Parliament and ministers do not get involved in operational decisions of departments. Other jurisdictions take different approaches, for example setting rules for how departments should operate in primary legislation or involving ministers more directly in the day-to-day management of departments.
 - b. *Across departments:* A second dimension of freedom to manage involves the freedom from standardised administrative rules set by central agencies. In some jurisdictions, central agencies set detailed rules about back office or 'corporate' services (financial management, human resource management, information and communication technologies, property management, procurement, communications) that departments must follow.
 - c. *Within departments:* A third dimension of freedom to manage involves delegations within the hierarchical structure of a department. The department chief executive must decide which decisions are made centrally, versus which are delegated to lower-level managers, either by policy area, by programme, or by location (region/district/community).

Benefits of freedom to manage

26. Freedom to manage became popular due to enabling (and in some instances, requiring) public servants to innovate. However, there are also costs, including reduced interoperability, diseconomies of scale, and limitations due to capability.
27. When departments can control what they do, they can be held responsible for what they produce. This requires public servants to be set clear performance objectives, and to accurately measure each party's contribution to the performance achieved, but in theory offers improvements in accountability and performance.
28. Freedom to manage allows public servants to change what they do to better meet those objectives. This means that they can adapt their actions in response to changing circumstances, and these adaptations can typically occur more rapidly than those that

require central authorisation. A public servant with freedom to manage can often solve problems on the spot.

29. Such public servants can create and apply novel solutions. Clear performance objectives provide them with an incentive to make innovations work, and a litmus test for assessing progress. For freedom to manage to be effective, there needs to be measurement, evaluation, and diffusion of successful practices (refer to discussion of innovation below).

Disadvantages of freedom to manage

30. Conversely, freedom to manage means that public servants are trying new ways to solve problems, and this involves additional effort. In the same way that factory workers can produce 1000 identical shoes more quickly than the same number of cobblers could produce bespoke shoes, freedom to manage can be inefficient when the costs of process experimentation are greater than the benefits.
31. Freedom to manage also means that businesses and members of the public might experience variability in the services they receive. Even if the overall performance is improved, this variability can make services less predictable and result in perceptions of unfairness.
32. This variation means that systems and processes may no longer be interoperable. For example, it can be difficult to transfer data between departments and realise the benefits of big data. It can be hard for departments to pick up the work of other departments to help during a crisis. Even transferring staff can be difficult when human resource policies or payroll management vary between departments.
33. Decentralisation reduces the ability to develop specialist capability. For example, a centralised procurement function can develop specialist expertise in different aspects of procurement management or types of procurement, whereas separate procurement functions in departments or business units may be staffed by generalists performing a range of functions. Decentralisation may impair the development of centres of expertise, and make it more difficult to do technically challenging work.
34. Bespoke departmental solutions can result in duplication of assets and capability, and diseconomies of scale. If each department buys their own payroll management system, this is likely to cost more than purchasing a single payroll system for the whole public service. Departmental freedom to manage reduces government's market power. Many businesses only or predominantly provide services to government. Centralised procurement increases government's buying power and allows government to negotiate more favourable terms.

New Zealand's approach to freedom to manage

35. The New Zealand public service is broadly considered to have had low public service freedom to manage until the 1980s. Reforms in the 1980s resulted in what is generally considered the greatest freedom to manage of any public service in the world. While core elements of the 1980s reforms remain in place, many public administration changes since have aimed to mitigate some of the disadvantages of this high freedom to manage. A reduced commitment to and focus on the tenets of the 1980s model has also seen some erosion of freedom to manage in practice. **Annex One** provides more detail of this history.
36. This briefing's remaining sections consider areas that align with your interest in improving performance. These involve choices about the allocation of decision rights (i.e. the level of freedom to manage) that may improve the public service's ability to deliver on the Government's objectives.

Part 2: The Management of innovation

- 37. The Government has committed to improving outcomes for New Zealanders while implementing a fiscal plan that requires significant cost savings in the public sector. Innovation is one way to achieve this, including innovations that deliver the same benefit for less cost or result in less future demand for services.
- 38. This part covers what innovation is, how the public and private sector differ, implications of our public management system for innovation (including how innovations are funded and scaled), and possible changes to system settings that could help maximise the value of innovation.

What is innovation?

- 39. Innovation is the application of ideas that result in new goods or services or improved goods and services. One popular model describes a linear process between:
 - a. invention (the creation of new solutions)
 - b. implementation (the application of inventions), and
 - c. diffusion (the uptake of innovations by other actors).
- 40. This linear model is considered outdated in innovation literature, but remains relevant for considering innovation within a relatively closed system such as the public service.

How does innovating in the public and private sector differ?

- 41. Some activities undertaken by public and private sector organisations are similar, while others are unique. For example, completing an online form to request a change in service may be something that occurs in public and private organisations in largely comparable ways. However, arresting a suspected criminal offender, providing welfare payments, or holding an election, are more specific to the public sector. Activities by departments that are more like private sector analogues may be more suitable for adapting or adopting private sector innovations.
- 42. Innovation in the private sector allows for individual firms to create a temporary advantage over their competitors, and therefore capture market share. This is described as a 'first-mover advantage.' Such innovations are then usually adopted by rivals. Most public services are monopolistic, and therefore the concepts of first-mover advantage or market share are not relevant.
- 43. Innovations in the private sector allow for individual firms to differentiate themselves from their rivals. A market may consist of many different suppliers, each offering a different set of services. If some of these services are ineffective, customers will simply shift to alternate providers. In contrast, the monopolistic nature of public services means that there are not alternative providers. Citizens expect that their public services work, not that there are a variety of options to choose from, some of which will work better or worse for them.
- 44. These two considerations – first-mover advantage and the ability to risk poor performance, both in the pursuit of market share – mean that it is rational for private sector companies to invest more in innovation and take more risks in deploying innovation.
- 45. One function of government is to provide a stable regulatory environment that allows the private sector to plan with confidence and to innovate to solve known problems. A government that innovates too rapidly, especially regarding regulatory settings, may inhibit business confidence and investment.

46. One way that monopolies can still experiment is through internal variation. For example, behavioural insights teams often undertake randomised trials where different groups receive different services. In New Zealand there are several case studies where local variation has resulted in innovation, although the inherent contextual variation between locations means that it is more difficult to evaluate their success.

What is the relationship between freedom to manage and innovation?

47. The differences between public and private sector innovation mean that it is not clear that lessons from private sector innovation literature can be transferred by analogy to the public sector. However, the literature on innovation in the public sector is limited by problems of attribution inherent in social outcomes (what actions contributed to the outcome?) and a lack of counterfactuals common in a monopoly (would the innovation have occurred without the pro-innovation policy?). Therefore, despite limitations in analogy, much of the theory still comes from the private sector.
48. Since the 1960s, the general theme of private sector innovation literature has been to maximise management discretion in how they pursue clear objectives (i.e. freedom to manage). In the 1980s, these lessons were transferred to various public sectors around the world. New Zealand's approach included separating outputs and outcomes. Ministers were responsible for achieving outcomes, and for 'purchasing' the outputs they required for this purpose (described further in **Annex Two**).
49. This had reported advantages in terms of clarifying objectives, but also resulted in departments innovatively pursuing the delivery of outputs in ways that did not necessarily contribute to the desired outcomes. For example, a department might get very efficient at delivering services that are not effective, or targeting services at citizens or businesses who don't need it.
50. Different performance regimes have been tried over the intervening 35 years, but in general there is now less precise specification of outputs than in the past. While the New Zealand public service still has relatively few central bureaucratic rules compared to other similar countries, there is also now arguably more central direction than any period since the 1980s (discussed further in Part 3, which focuses on the management of common functions).
51. New Zealand's 'freedom to manage' approach was credited with kickstarting significant innovation. Public servants went from being responsible for following the procedures specified in various manuals to having responsibility for organising their work to best meet agreed quality and quantity measures. The New Zealand public service was described as highly innovative, although it was also criticised for innovating too quickly, and neither embedding nor learning from innovations explored.

How do new ideas translate into improvements?

52. Some innovation occurs from the top down. In many policy areas, policies and programmes have undergone near constant change. Novel solutions are proposed, partially applied, and then replaced by different novel solutions before the previous changes have been evaluated. Trying new things, without evaluating the previous changes, creates churn without necessarily contributing to policy learning.
53. Other innovation occurs from the bottom up. Several studies show how individuals identify new ways of doing things, and make changes. They are often protected by 'guardian angels' – senior figures (including ministers, chief executives, and others) who empower staff to take initiative. Sometimes, these local innovations are evaluated and scaled (for example, the use of actuarial modelling to support Social Investment has links to smaller actuarial

approaches trialled at the Ministry of Social Development and the Accident Compensation Corporation in the early 2000s), but more often innovations remain obscure and often fail to outlast the departure of individual leaders.

54. The linear model of innovation (invention, implementation, diffusion) is therefore a useful way to understand the current challenges to innovation in the public sector. Public servants in New Zealand and around the world invent new ways of doing things. These are applied locally, in communities, or in narrow policy areas. They are typically not evaluated, so we do not know what works. Small solutions are not scaled, and diffusion does not occur.

How is innovation funded?

55. The focus on freedom to manage the delivery of outputs has meant that it is much easier to innovate for efficiency in the delivery of existing outputs than it is to innovate for effectiveness through new or changed outputs. In the New Zealand public finance system, it is typical that outputs must be specified in advance through the Budget process. Innovation is often iterative, and if a novel solution is to be tried it is unlikely that it will be possible to fully specify outputs in advance.
56. The Public Finance Act 1989 initially required that outputs be specified very precisely. Over time, output classes have become broader and less specific. This means that government arguably has less control over what departments produce, but that departments have more flexibility to allow in-year adaptation, potentially enabling innovations that are similar or adjacent to existing services.
57. Occasionally there are unusual circumstances that mean that departments do not need to specify outputs in advance. In effect, funding in these areas resemble innovation ‘grants’ rather than funding for specified services. The Better Public Services Seed Fund, the Justice Sector Fund, and the Proceeds of Crime Fund are described as case studies below.

What are the settings that maximise the value of innovation?

58. Innovation is supported by an enabling environment that provides freedom to manage and encourages experimentation. Where innovation involves delivering the same outputs in different ways, research indicates New Zealand has a highly innovative public service in which lots of different approaches are trialled at a local level. These innovations are not often evaluated, or scaled. Where innovation involves delivering different outputs, it can be difficult to fund innovation, and where grant funding has been used, this has resulted in substantial innovation.
59. Key enablers that maximise the value of innovation could therefore include:
 - a. Resetting freedom to manage and **renewing focus on setting clear objectives**. The 1988 model drew stark distinction between ministerial responsibility for setting policy and ‘purchasing’ the outputs they needed, and chief executives for configuring their departments to deliver. The accretion of changes in the past 15 years mean that these distinctions are now arguably less stark, with less clarity on what departments will deliver, and ministers and Cabinet straying into operational decision-making.
 - b. **Clarifying with ministers/Cabinet where risks can be taken**, and not punishing failures if these have been managed as part of a conscious and deliberate approach to innovation in agreed areas. Departments tend to be risk-averse, in part reflecting a ministerial preference to avoid adverse media attention. Innovation always involves some risk, and for departments to feel comfortable taking chances and risking failure they need to know which risks are acceptable and which are not.

- c. **Encouraging delegated decision-making** within departments. Some large departments seek to manage the reputational risks of variability by strongly centralising internal decisions. Research suggests that innovators require senior figures to act as ‘guardian angels’ to protect their autonomy and encourage experimentation. A pro-innovation culture would see public servants encouraged to experiment within their freedom to manage and to learn from this experimentation.
- d. Creating a **contestable fund to award grants** to innovation proposals. It is likely that this fund would only need to be relatively small, to provide time-limited seed funding to new ideas. Funding could be contingent on departments evaluating the innovation, and clear milestones for departments to make investment decisions.
- e. Centralised **support for evaluation**, and expectations that programmes will be evaluated before further investment decisions. Most programmes are not evaluated, which means that it is not clear that we are retaining (and scaling up) the right innovations, and cancelling the ones that don’t work. Departments and ministers often do not want to evaluate programmes because findings may not align with the preferred choices in reinvestment decisions, and so centralised support and pressure may be required.
- f. Centralised **support for the transmission of lessons** from local-level innovation, and the scaling and diffusion of successful innovations. Despite the uneven delegation of decision-making, research shows that lots of new ideas are tried locally. These innovations are often dependent on individuals and are lost when the individuals move on. Central government has access to data infrastructure, investment expertise, and the national reach to highlight these lessons and support the best innovations to be applied elsewhere.

Case study: Better Public Services Seed Fund

- The report of the Better Public Services Advisory Group sought to improve innovation by the public service. One of the government’s responses was to establish a \$20m per year contestable grant funding scheme called the Better Public Services Seed Fund. The fund was established in 2012-13 and ran for four years.
- The fund was used to provide initial investment to develop new ideas to the point where their benefits may be better understood, allowing departments to subsequently make investment decisions.
- For example, the Auckland Co-Design Lab was established in 2015 with two years’ seed funding. A co-design lab had been trialled internationally but not previously in New Zealand, and so it was unknown whether such an approach would be successful. Following the two year ‘proof of concept’ period, since 2017 the co-design lab has been jointly funded by contributions from several departments and the Auckland Council.

Case study: Auckland Co-Design Lab

- The Auckland Co-Design Lab continues to operate in South Auckland and often works with disadvantaged communities to support better social outcomes. The Lab employs facilitators who can support departments, local government, businesses, NGOs, individuals and families to co-design innovative ways of working together.
- The three main components of the Lab methodology are ‘Live Labs’ where new ideas are prototyped and tested, ‘Lab Learning’ to build innovative capacity among partners, and ‘Lab Insights’ to share practice-based evidence on what works.

- One example is the Auckland Wide Healthy Homes initiative. The Ministry of Health funded the Auckland Co-Design Lab to work with local families on practical solutions to improve the quality of housing between October 2015 and July 2018 and thereby improve health outcomes like reducing the incidence of rheumatic fever.

Case study: Justice Sector Fund and Proceeds of Crime Fund

- The Justice Sector Fund was a novel funding solution when there were fewer correctional inmates than anticipated, resulting in an underspend in an appropriation administered by the Department of Corrections. Cabinet agreed that the justice sector could retain the underspend and use this to fund innovative justice services that would reduce crime, harm, or reoffending. This funded the initial development of innovative programmes that were subsequently evaluated and transferred to mainstream funding. The Justice Sector Fund only persisted while there was an underspend by the Department of Corrections, which shrunk over time.
- The Proceeds of Crime Fund was also used to support innovation in the justice sector. Money recovered from criminal offenders was held in a memorandum account and reallocated to support high-impact innovations.
- The High Impact Innovation Programme identified pain points in the justice sector. For example, under some bail conditions, bailees must apply for permission to travel. The Bail App Project allows these requests – for example to attend a health appointment or shop at a supermarket – to be made and approved through a phone app, allowing approvals to be made more quickly and at less cost to taxpayers.
- The programme also balanced work to understand local communities and tailor local solutions, with identifying lessons that could be applied elsewhere.

Part 3: The management of common functions

60. Several current issues relate to the management of common functions across the public service, for example:
- a. Ministers have expressed concern about progress on digital transformation of public services, and the lack of standardisation and interoperability of digital platforms across the public service. Each department purchases the IT systems that meet their individual department's needs, and this results in a fractured and inefficient experience for citizens and businesses.
 - b. Ministers have expressed an interest in the possibility to realise budget savings through the overall reduction of the office property footprint of the public service. Departments typically each sign individual multi-year leases with commercial landlords, and therefore cannot easily reduce their property expenditure in the short term if their requirements change.
61. This part covers what is meant by 'common functions', broad options for the management of common functions, how the management of common functions has evolved in New Zealand, current barriers, and potential opportunities for improvement.

What are common functions?

62. Governments perform a vast array of activities, and most governments divide their administration into smaller units (departments) each with responsibility for a more manageable range of activities. These departments are usually formed by grouping activities that contribute to similar outcomes, and departments therefore usually differ in the outcomes that they are pursuing (for example, health outcomes versus transport outcomes).
63. However, despite differences in outcomes, many of the activities pursued by different departments are supported by similar functions, particularly 'back office' functions like HR, finance, procurements, property management, and digital technologies.
64. Because these functions are common to many or all departments, there may be opportunities to act across multiple departments to improve how they are being performed. This could include reducing duplication, leveraging economies of scale, building capability, improving interoperability, or managing risk. Some improvements can be translated into realisable savings, and others into improving effectiveness.

Centralisation, decentralisation, and middle options

65. Different jurisdictions around the world take different approaches, and these can be broadly represented as a continuum between decentralised and centralised. Both extremes tend to be impractical, but there are important trade-offs to be managed when choosing between options in the middle.
66. The fully decentralised model maximises freedom to manage, and sees each department operate as an island. They develop their own policies and practices, develop capability internally, and act independently. This has the advantage that they can be highly responsive to their minister, and can design back-office functions to support their specific business needs. New Zealand is widely considered to have gone further than other jurisdiction in the decentralisation of these decisions through the 1988 State Sector Act. The disadvantages of a decentralised approach are that:

- a. back-office services can be expensive because each department must invest in developing their own policies and processes;
 - b. small departments may not have the critical mass to employ specialised skills, resulting either in inefficiency or a lack of capability;
 - c. different systems make it difficult to share data and collaborate;
 - d. during emergencies, incompatible services may make it challenging for one departments to rapidly redeploy capability to help another; and
 - e. central agencies may struggle to drive performance because they lack the specialist knowledge and insight to understand departments' back-office functions.
67. The fully centralised model sees back-office functions delivered centrally, using 'shared services.' This has been trialled across the public service in some Australian states and between small numbers of departments in the New Zealand system. The key limitation is that shared services agencies tend not to meet the bespoke needs of individual departments, creating principal-agent problems and high transaction costs. Shared services have frequently failed to deliver the anticipated cost savings and have high rates of failure/dissolution.
68. A weaker centralised model sees back-office policies and processes specified centrally, but delivered by departments. This is seen to varying degrees in many jurisdictions, and in New Zealand prior to 1988, where 'directives' from central agencies constrained many aspects of public service operations. Departments become responsible for implementing the rules, not for improving their own efficiency or effectiveness. Rules that make sense from the centre cannot anticipate all possible uses in departments, and inevitably constrain innovation.
69. 'Middle' or intermediate options have involved designated leadership of common functions, where leaders are expected to work with departments to improve their processes and capabilities.
- a. In one version, Cabinet provides a mandate to a leader to drive changes. This has the advantage that Cabinet can specify the changes that they want to see. It has the disadvantage of the centralised rules model, in that it interferes with the departments' freedom to manage and thus constrains responsiveness to individual ministers, innovation in departments, and accountability.
 - b. In another version, functional leaders must 'make the case' to departments that their leadership will drive efficiency, or interoperability, or reduce risk, or some other advantage. Departments maintain freedom to manage and are 'opting in' to functional leadership because this improves operations.

Leadership of common functions in New Zealand and internationally

70. For approximately the past 15 years, governments in New Zealand, Australia, the UK and Canada have experimented with such middle options that attempt to optimise the trade-offs between centralised and decentralised models through the appointment of designated leaders for common functions.
71. 'Functional leadership' evolved in New Zealand in the early 2010s (excepting some earlier attempts to lead common IT capability development out of the then State Services Commission). The initial three functional leads were Property (MSD), Procurement (MBIE), and Information and Communication Technologies (DIA). There were also several 'heads of profession', which function similarly but with a more limited focus on capability development of a particular professional group (e.g. finance professionals).

72. Functional leads and heads of profession were initially created through variable processes, including Cabinet decision, ministerial decision, actions by the Commissioner, and in some cases self-appointment by individuals. The Public Service Act 2020 formalised the process for appointing functional leads, now renamed 'system leads.' System lead roles are established by Cabinet and individuals are appointed by the Commissioner. There are currently 7 system lead roles and 5 heads of profession.¹
73. System leads and heads of profession have largely evolved on their own, absent strong central direction, and there is considerable variability between how they operate. Some have strong Cabinet mandates and others have focused on more voluntary association and demonstrating value to departments.
74. Other jurisdictions have taken similar approaches. The UK civil service has 18 'functions' and 13 'professions', in most cases led by the Cabinet Office. Australia has six 'professions' led by the Public Service Commission. Canada has three 'functions', led by the Treasury Board Secretariat, and nine 'communities' (similar to professions), each led by a different department chief executive and coordinated by the Privy Council Office.
75. The first and most advanced example is in the UK. UK Cabinet Office officials report that success has been variable between the different functions and professions, with some generating huge savings and demonstrative improvements in capability and performance, and others struggling to demonstrate impact. UK officials relayed that they were unsure whether this variance was most attributable to individual leaders, differences in methods and approaches, or differences inherent to the different functions and professions.

Leadership by central agencies versus line departments

76. In the UK, functional and professional leads were usually appointed within the Cabinet Office (a central agency) at a time when it had a strong leadership role and a relatively command-and-control culture.
77. When functional leads and heads of profession were created in New Zealand, there was a relatively weak centre and a strong culture of freedom to manage. Functional leads and heads of profession were therefore allocated as additional responsibilities for existing line department chief executives – the intention was that support for these roles would be increased by the perception that they were not being imposed onto line departments by the centre, but were instead done by departments to themselves.
78. Another reason that functional leads and heads of profession roles were given to line departments was to counter the perception that central agencies did not have applied expertise. The initial functional leads (procurement, property management, and information and communication technology) were given to the leaders of departments who were recognised by their peers as highly capable in those areas.
79. This choice represents a clear trade-off between additional profile and influence that central agency chief executives may bring to the leadership of common functions, and the applied experience and expertise that line departments may have and be seen to have. Ultimately, the determining factor may be the government's overall priority on the

¹ Functional leads include Property (MBIE), Procurement (MBIE), Data (StatsNZ), Digital (DIA), Regional (MSD) and Service Transformation (IRD), Information Security (GCSB). Other functional leads include Protective Security (NZSIS) and Health and Safety (MPI). Heads of profession include Policy (DPMC), Legal (Crown Law), Finance (Treasury), Internal Risk and Audit Assurance (MoE), and Communications (MPI).

leadership of common functions, and therefore how much effort and political capital central agency or line department chief executives are willing to expend to support it.

Reported barriers to success

80. Functional leads report several barriers:

- a. While weakened, there remains a prevailing public service **culture** of freedom to manage, and functional leadership is seen as working against axiomatic principles of the New Zealand 'model.' Departments have often been slow to implement mandated changes that run contrary to freedom to manage.
- b. Departments know they will continue to be accountable for performance and therefore are **reluctant to give up control**.
- c. Functional leads are sometimes **unable to convince departments** that anticipated benefits will be realised.
- d. There is frequently **a mismatch between the priorities** of functional leads and their ministers, on one hand, and the priorities of line departments and their respective ministers on the other.
- e. When leaders of common functions **report to a junior minister**, they have difficulty influencing more senior colleagues.
- f. Functional leadership is seen as an **add-on to department leadership** and lacks dedicated focus. Functional lead chief executives must divide their attention between leading their department and leadership of common functions.
- g. Back-office functions rarely make the news or directly affect identifiable groups of citizens, and therefore are deprioritised and do not receive ministerial or leadership attention. Chief executives know that ultimately, **they will likely be rewarded or sanctioned based on outward-facing activities**.
- h. Functional leadership is either funded through insecure club **funding** or reprioritised from baseline, and neither option allows for consistent effort over time.
- i. In many cases, the management of common functions could be improved through training, but there are practical **obstacles to delivering public service-wide training**, where public servants from different departments do not have access to the same learning management systems.

Options for improvement

81. There are several plausible opportunities for improvement that require further exploration:

- a. Common functions **need clear objectives**, rather than simply remit that give boundary to their responsibilities. For example, the early successes in procurement focused on realised cost savings from four commonly purchased items.
- b. Existing **governance models** may not be fit for purpose. There may be benefit in exploring and potentially redesigning the relationship between leads and other chief executives and between functional lead ministers and other ministers.
- c. One objective of functional leads could be to **collect and report performance information** from departments about how they are performing common functions. This could improve performance information held by government, and the ability of

central agencies and ministers to understand and manage departments' performance and the performance of the leads.

- d. Central agencies could **elevate the profile** of functional leads through sponsorship and leadership. As discussed above, functional leads could be featured on the Public Service Leadership Team (PSLT) agenda, and functional leads could have a role in collecting performance information relating to their function that informed the Commission's chief executive performance management process.
- e. It may be desirable to elevate the priority of functional leadership by having **dedicated chief executives**, rather than asking line department chief executives to add functional leadership to their other responsibilities. This could include separate chief executives (for example, one chief executive for digital and another for procurement) or for all common functions together. This could be a 'functional chief executive' or a chief executive of a new departmental agency.
- f. Different approaches to **capability platforms and programmes** could be explored. One option, favoured in other jurisdictions, would be a centralised learning management system, accessible by all public servants. Functional leads could then develop material for dissemination through this platform.
- g. In some narrow cases, it may be appropriate to consider **specific mandates that reduce department autonomy**. All centralisation inevitably reduces the ability of the chief executive to design the department they lead to achieve their objectives, and reduces their sense of accountability for performance. However, this may be a worthwhile trade-off in some cases. Such mandates would need to be specific and accompanied by an equal and explicit reduction in the decision authority of the chief executive. For example, if the Government Property Group were given greater authority to manage department leases, and chief executives were no longer permitted to negotiate their own leases, the government may be able to realise savings, and the resulting constraints on freedom to manage may be manageable.

Case study - Procurement

- The Ministry for Business Innovation and Employment's (MBIE) leadership role in procurement precedes their formal designation as functional lead in 2011. MBIE had been recognised for competence in procurement and had been supporting other departments with implementing good procurement policies since 2009. In 2011, they were one of the original three 'functional leads' (along with property management and information and communication technology).
- The procurement functional lead began with MBIE offering to negotiate the purchase of four items that many departments needed – stationery, vehicles, computers, and printers. Departments could opt-in to these processes. The first four contracts realised \$140 million in savings, and so more departments chose to participate. This built confidence in MBIE's leadership role and led to more whole-of-government contracts that have realised over \$1 billion in hard savings.
- MBIE developed model standards for procurement. Again, these were initially developed through an opt-in model, but departments wanted reassurance that they were doing the right thing and so voluntarily followed the standards. They have since been mandated through Cabinet directive.

Part 4: The management of complex cases through networks

- 82. The Social Investment approach seeks to better target and invest in interventions to improve long-term social outcomes.
- 83. A small number of cases drive a disproportionate social harm. Social, health, education, and justice sectors each provide services to families with intergenerational and reinforcing challenges. These services are provided by public agencies and by contracted external providers. Sustained progress requires an integrated plan that is agreed with the individual/family, that sees all providers working together, and features reciprocal commitments and milestones.
- 84. This part explores these ‘complex cases’, what makes them difficult to manage either via hierarchy or contract alone, the need for bespoke integrated solutions, and how networked approaches offer the potential to better coordinate social supports.

Complex cases

- 85. Many social services can be delivered separately. An individual may require an operation, or a counselling service, or access to education.
- 86. For some individuals and families, social challenges come together. The most challenging cases involve a mix of (for example) unemployment, poverty, homelessness, physical health issues, mental health issues, disability, drug and alcohol addiction, learning difficulties, truancy, and crime (as perpetrators, victims, or both).
- 87. These cases involve individuals with high needs, often existing within family contexts where multiple individuals have high needs. These family environments tend to be self-reinforcing, and creating lasting changes for an individual tends to require changes to their family environment, often described as requiring a family-centred approach.
- 88. Analysis linked to the Social Investment approach has identified that a small number of these cases (‘complex cases’) drive a disproportionate demand for public services. They are often described as resulting in ‘many cars up the driveway’, in that they are visited by multiple government agencies and external providers.
- 89. Both as sources of social harm, and drivers of public expense, governments tend to be very interested in how complex cases can be supported so that these challenges can be effectively addressed. However, despite successive efforts, these cases are often intractable and persist over generations.
- 90. Progress in one area tends to be impeded by unaddressed challenges in other areas. For example, it may not be possible to sustain employment until mental health challenges are addressed. It may not be possible maintain financial independence while still suffering from drug and alcohol addiction. It may not be possible to improve education outcomes until housing is addressed.
- 91. Addressing these challenges requires an integrated plan and a mix of services that may be unique to each case. It is rarely feasible to combine these services into a single contract or a single agency, because:
 - a. The services involved span disparate service types that would typically not be delivered together, such as teaching, nursing, policing, and social work. To combine this broad range of services into a single agency (or contract) would involve most of the government.

- b. Not only are the range of services very broad, they can also vary between each individual case. It is not practical to create an organisational boundary that includes every possible service that may be required.
 - c. Relationships and trust are important, and services should be delivered within the context of the individual or family's existing relationships and community. Progress ideally involves support (for example) in their current school or with their current psychologist.
 - d. Some services can only be delivered by the state and involve the use of coercive powers – for example, policing.
 - e. Some services can only be delivered by external providers. For example, in some cases cultural connections can be important and are provided by community organisations from the relevant cultural group.
92. For several decades, the social sector has tried to contend with these challenges by bringing together the relevant service providers from government agencies and contracted external providers (see, for example, the below case study on 'children's teams').
93. Whether public servants or external providers, features of our public management system mean that these solutions often push against the tide and frontline service providers often lack the freedom to manage the specific needs of individual complex cases. External providers are often restricted by detailed output-based contracts, and frontline public servants are often restricted by rigid hierarchy.

The challenges of contracts

94. Transaction cost economics distinguishes between two approaches to the management of performance: markets/contracts and hierarchy/relationship. Markets/contracts are thought to be effective when there is high performance clarity – the ability to specify in advance the performance sought and to accurately measure each party's contribution to the performance achieved.
95. New Zealand is often described as contracting for outputs, but the reality tends to be more mixed. Contracts will specify the quality and quantity of services to be delivered (outputs), but government also often requires that services be organised or delivered in specific ways (for example, whether a service should be delivered at the organisation's office or out in the community), a form of activity specification. Contracts also specify who must deliver the service (for example, a registered nurse), a form of input specification.
96. Nonetheless, outputs often form the preferred form of specification because they allow government to specify what should be delivered, while allowing providers some flexibility in how they organise themselves.
97. While it is sometimes possible to specify intermediate outcomes in narrowly defined areas, contracting for outcomes² is usually impractical due to challenges with measurement, attribution, and timeliness (see **Annex Two**). Outcomes are influenced by societal

² Note that some programmes are sometimes described as 'contracting for outcomes' when a grant is provided for a particular purpose. For example, a provider may be provided with a contract for the purpose of improving an outcome, but they will be paid regardless of whether the outcome is achieved; they are only contractually obligated to complete certain specified activities, for example including reporting requirements. In this paper we use the term 'contracting for outcomes' to refer to a traditional contract in which payment is conditional on receiving something in return, where a provider would be given money in exchange for delivering a specified change in outcome.

conditions, delayed effects, and interventions by multiple services providers ('the problem of many hands').

98. Complex cases provide a particular challenge to outcome contracts because they are, by definition, spanning multiple service types that cannot be combined. A recent review on international experiences with contracting for outcomes suggests that the measurement and attributions problems are significant, and may be subject to exploitation at the expense of the government.
99. In New Zealand, these problems are compounded by a lack of effective market competition or excess capacity in the social sector. Markets are thought to be an effective form of performance management in part due to the ability of the purchaser to choose between multiple providers who are best able to deliver the specified objective. There is typically not a pool of providers in locations across New Zealand with excess capacity to choose from, and so government must contract with those few or only providers who are able to deliver the required services. Providers cannot easily enter or exit the market because there is a fixed capacity of relevant professionals and a government monopsony. Even when the government does change providers, fixed capacity likely results in many of the same professionals simply shifting to the new provider and providing the same services.
100. Therefore, the default 'least-bad' option has been to prefer contracting for outputs while also specifying certain inputs and activities. The contracted specification of outputs limits the ability of providers to commit to a bespoke plan based on the unique needs of the complex case. Despite the stated assumptions of rationality inherent to the New Zealand model, providers are also managed through their presumed commitment to the community and the behavioural norms of their professions.

The challenge of hierarchy

101. Conversely, transaction cost economics typically suggests that hierarchy is most effective in cases where performance clarity is low.
102. In theory, it is possible to provide lower-level employees with the freedom to manage the cases they are assigned. Rather than having to specify exactly what will be delivered, employees can be given less detailed specification and be later evaluated on whether their work was appropriate and of high standard. However, autonomy is inefficient for repeatable tasks, limits comparative performance measurements, and provides reputational risk by allowing for variability in service provision.
103. Therefore, many agencies provide detailed specification on how their employees must act (activities). Additionally, public servants may have performance objectives relating to quality and quantity (outputs). These objectives may be incompatible with the individualised nature of service requirements for complex cases, or with the need to coordinate with others to deliver an integrated plan. Frontline staff are also assumed to display a spirit of service to the community and fulfil professional obligations.

Networks

104. Other theories and disciplines identify a broader array of mechanisms for managing performance. Some argue that goal congruence – the extent of overlap in motives and values between parties – is an important aspect of performance management:
 - a. Markets/contracts should be used when goal congruence is low, and performance clarity is high.

- b. Hierarchy/managerial relationships should be used when goal congruence is moderate, and performance clarity is moderate.
 - c. 'Networks' should be used when goal congruence is high, and performance clarity is low.
- 105. Networks are a type of management control where individuals from different organisations work together to achieve a shared goal alongside their individual goals. Relationships between network members are generally non-hierarchical and participants tend to have substantial operating autonomy within the context of multilateral relationships.
- 106. Networks are applied to complex cases when committed frontline professionals are given autonomy to work in novel ways with each other to meet the specific needs agreed with the relevant individual or family. Their collaboration is driven by their commitment to the needs of the individual/family.
- 107. Networks of this type are typically funded by input – the professionals' time. Individuals within agencies are provided with the time to work with complex cases. External providers are funded by grant for the proportion of their time they contribute to these cases. The lack of performance clarity means that their outputs cannot be prescribed in advance. The problem of many hands means they cannot be funded for outcomes – no party can guarantee the outcome because it is influenced by societal conditions (for example, the state of the economy, or the opening or closing of a large employer within a community), government policies (for example, how laws are enforced and crimes prosecuted) and a range of other services past and present, including those other members of the network.
- 108. Networks typically have a nominated administrative support – either a lead organisation, or a coordinator agreed with the individual or family on a case-by-case basis. Case networks also engage with centralised support for data and insights.
- 109. The management of complex social cases is also advantaged by the prevalence of strong regulated professions (social workers, nurses, teachers, psychologists, etc.) who can influence the performance of members, without requiring detailed specification directly by their hierarchy or contract manager. When contracting in the social sector, we should always assume that performance clarity is imperfect, and contracts are therefore incomplete – the use of regulated professions provides an important additional (but often assumed or ignored) component of managing performance.
- 110. Professional bodies have detailed expectations of the acceptable behaviour of a member, and expel members for not complying with their peers' expectations, meaning a government agency does not need to specify exactly which activities (e.g.) a surgeon or a psychologist will perform because these are managed by requiring simply that these individuals maintain registration as members of their profession. See **Annex Three** for a description of other levers used to manage performance in networks.

Options for improvement

- 111. Contracts and hierarchies remain effective for managing known and repeatable services that are delivered in the same way across many cases (where performance clarity is moderate or high). Complex cases may require a different approach, including network models, and rely in part on conduct enforced by professions.
- 112. The New Zealand public management system has been previously criticised taking a 'one-size-fits-all' approach to performance management. It may be more appropriate to consider a dual-track model for managing most services using the default approach and exploring network approaches for complex cases.

113. Despite a few experiments, network approaches are less well understood in New Zealand, and so future solutions would require careful consideration. However, some indicative interventions could include:
- a. Ministers **signalling to agency chief executives** that complex social cases are a government priority, for example through the setting of a target that requires a cross-agency approach, and requiring social sector **agencies to preserve the time** and resources required for public servants to participate in networks to manage complex cases.
 - b. **Leadership and championing** of network approaches. Ministers and central agencies can provide legitimacy and signalling of the importance and relevance of network approaches and coordination with other service providers in managing complex cases. This signal provides the 'air cover' for departments to experiment with such approaches (see part 2 of this pack, on the management of innovation).
 - c. Agencies exploring how the **lessons from past experiments** with networks (for example, Strengthening Families, Social Sector Trials, Place-Based Initiatives, Children's Teams; and more recently the Integrated Safety Response to family violence and aspects of the Whānau Ora model) could be applied in other cases. Several of these programmes have been previously evaluated individually but may offer cross-topic insights.
 - d. Agencies **using data to identify** the complex cases that disproportionately drive demand for government services, and to evaluate the effectiveness of approaches to inform subsequent investment decisions (aligned with the Social Investment approach).
 - e. Requiring that complex cases **have an agreed, integrated management plan** with milestones and evaluation. This responsibility could be assigned to a single agency to monitor, but the lead could be determined by mutual agreement with the individual/family.
 - f. Providing **grant funding** for experimental approaches to the management of complex cases, in exchange for their willingness to participate in a network. External providers, often working in precarious financial positions, need to know that they will be funded for their time. When operating with tight margins where costs are driven by salaries, it may not be possible to use fee-for-service payments to rapidly increase or decrease their revenue and make more resource available. Therefore, the government may need to make assumptions about likely demand and provide upfront grant funding.
 - g. Evaluating the use of grant funding in retrospect, to inform whether **the government's investment position** in that service or provider should be increased, decreased, or maintained. This position would logically be reviewed based on the demand for services, the cost of those services, and whether those services are demonstrated to contribute to improved outcomes.

Case study – Place-Based Initiatives

- The 'Place-Based Initiatives' were established in 2016 with the aim of improving outcomes for at-risk children and their families in three communities. This approach involved a primary reliance on existing resources, leveraging decision rights held by senior regional officials who would form the governance group for the initiative. The agencies involved differed between initiatives but have in common representation from the Ministries of

Social Development, Education, and Health; New Zealand Police; the relevant District Health Board; and the local government body.

- The respective governance groups each reported directly to a lead minister, and each had a dedicated support function to coordinate activities in their work programme as well as access to a national support function. The relevant minister retained decision rights over the selection of overall goals, but the local governance group had discretion to select individual initiatives.
- Place-based initiatives were described as following a ‘tight-loose-tight’ accountability, with clear outcomes set at the outset (tight), flexibility on how those outcomes will be achieved (loose), and close monitoring and accountability for results (tight). A government-funded evaluation completed in 2019, while supportive of the concept of place-based initiatives, noted several barriers to success: national policy settings and structures challenge effective local action; strong vertical accountability for outputs within government agencies limited flexibility; funding uncertainty made it more difficult to maintain capability; a lack of data capability and cross-agency data infrastructure limited performance clarity; and that more clarity was needed between government objective and local vision.

Case study – Children’s Teams

- Children’s Teams were a network governance approach to the case management of children with complex needs and their families. They were rolled-out between 2013 and 2015 over ten sites across New Zealand. Children’s Teams provided autonomy for a group of professionals from different organisations to jointly agree goals with families. In turn, employing agencies needed to relax output controls and provide participating workers with increased autonomy and more flexible time allocation.
- Until 2017, Children’s Teams involved the identification of a ‘lead professional’ that had an existing relationship with the family. The lead professional would bring together other relevant professionals from government agencies, non-government organisations, and iwi, who would work with the family to develop and implement a plan.
- However, the demands on these lead professionals proved unmanageable in cases where their employers were unable to loosen the output-based demands on their time. Consequently, from 2017, Oranga Tamariki took responsibility for network administration, and from 2021 the initiative was discontinued.

Annex One: New Zealand's approach to freedom to manage

114. From 1912-1988, New Zealand had a bureaucratic system based on a detailed Public Service Manual and even more detailed department manuals. Employment was managed centrally (by the Public Service Commission), and even stationery orders required central approval.
115. While there was no formal constraint on ministers becoming involved in operational decision-making, in practice such decisions were so constrained by central agencies that it was difficult for individual ministers to make changes, whether in deciding policies or in influencing operational decision-making. One rationale for the changes of the 1980s was to make departments more responsive to ministers.
116. Since the passage of the State Sector Act 1988 and Public Finance Act 1989, New Zealand has been considered the country that affords public managers with the greatest freedom to manage:
 - a. 'Purchase Agreements' provided clarity of objectives by assigning to chief executives the responsibility for delivering outputs of agreed quantity and quality. In 2004, purchase agreements were subsequently replaced with Output Plans and Statements of Intent that both described the outputs for which chief executives were responsible, and how the department understood the causal relationships between these outputs and the outcomes to which they contributed. In 2013, Statements of Intent were replaced with Strategic Intentions, and requirements for performance clarity were arguably weakened.
 - b. The New Zealand Cabinet Manual constrains ministers becoming involved in day-to-day operations (Cabinet Manual 2023 section 3.9 refers), with departments being responsible for executing government policy decisions and directions in the most efficient manner. In practice we have seen more instances of ministers becoming involved in operational matters in recent years.
 - c. In 1988 New Zealand devolved employment decisions to departments, eliminated most central agency administrative rules, and allowed departments to establish their own internal policies. This is very unusual by international standards, where rules are still often established by central agencies. In recent years, functional leads (discussed in Part 3 of this briefing) have begun to constrain horizontal freedom to manage, but New Zealand chief executives continue to have greater freedom from administrative rules than international comparators.
 - d. New Zealand has had (and continues to have) a mixed approach to freedom to manage within departments. Some departments are highly standardised, with rules set centrally. Others provide delegated authority to policy areas or business units, or local/regional leaders. 'Responsibility-based-processing,' below, provides a case study on freedom to manage within the Department of Social Welfare before and after the changes of the late 1980s.
117. New Zealand implemented many changes in the late 1980s, and it is difficult to definitively conclude which of these changes produced which effects. However, the New Zealand public service became significantly more affordable during this period, and many public servants attribute this change to increased freedom to manage.
118. Subsequent reforms have aimed to mitigate some of the disadvantages of freedom to manage, with the Public Service Act 2020 including normative provisions aimed at standardising public service behaviour and mechanisms for supporting the alignment of

activity (e.g. management of common functions) across departments. However the core legislative and conventional underpinnings of freedom to manage remain in place.

Case study: Responsibility-based processing

- While discussing the possibility of marginal changes to settings around freedom to manage, its potential impacts can be seen in the radical shifts that have gone before. ‘Responsibility-Based Processing’ was an example from the 1990s of the shift from a rules-based bureaucracy to considerable freedom to manage.
- During the 1980s, applications for a job-seeker benefit took six weeks to approve on average, and in some cases took longer than a year. In the 1990s, this was reduced to an average of 24 hours.
- The managers of district welfare offices were given significant discretion in how they processed applications. The logic was that district managers, closer to the ‘front line’, were better able to understand how to improve practice than those in the Wellington head office. These managers were instructed to try new practices every month, and report on what they had tried and what the results were. Regional managers worked to ensure that when a practice produced good results, other district managers were aware and able to adopt those same practices.
- One of the goals that they were set was ‘same-day service.’ Different district offices tried different things. Over many months, processing times were reduced, until eventually the average was under 24 hours. Many applicants had their benefits approved before they left the department office.

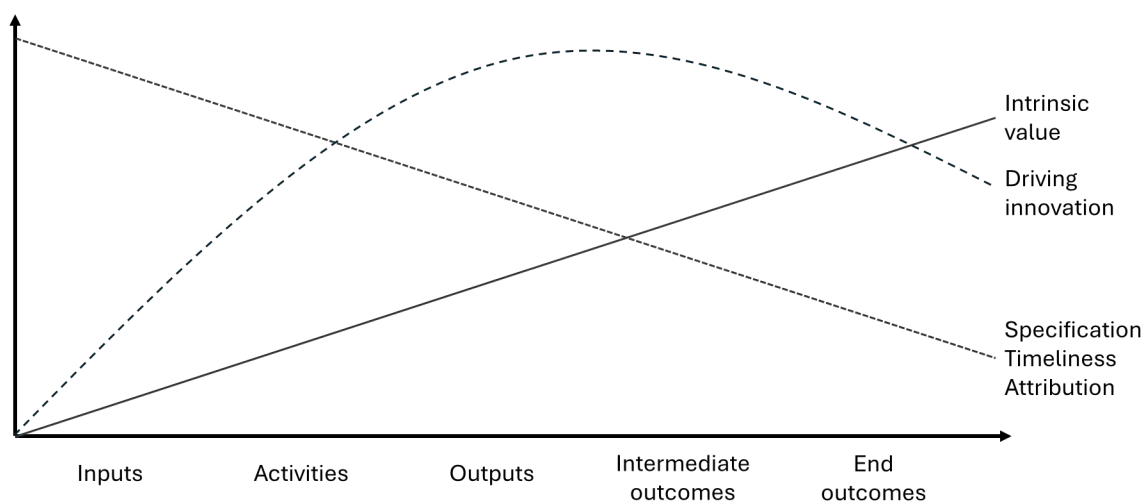
Annex Two: Inputs, activities, outputs and outcomes

119. This annex provides some background information on the management of performance objectives at the level of inputs, activities, outputs, intermediate outcomes, and end outcomes.
120. Freedom to manage involves the autonomy to pursue performance objectives. The nature and scope of these objectives may vary, resulting in a range of different effects.
121. The popular production model of public services (see figure below) imagines public services as analogous to products in a factory. Inputs (money, assets, people/hours, power/authority) are converted into activities (systems, processes) that produce outputs (goods and services, for example, teaching, counselling), that contribute to intermediate outcomes (proximate changes in societal conditions, for example, school grades, addiction rates), that contribute to end outcomes (long-term changes in societal conditions, for example, lifetime employment participation, health consequences of addiction).



The production model of public services

122. In each case, performance specification tends to occur at an aggregate level – specifying the total volume of services or the overall shift in average results rather than specifying changes for individuals.
123. These different production stages tend to vary in terms of their ease of *a priori* specification, potential for innovation, intrinsic value, and ease of attribution (see figure below).



Ease of specification, attribution, intrinsic value, and potential for innovation.

124. Inputs can easily be **specified in advance** because they are directly provided by the performance manager. Performing specified activities is simply a matter of compliance with set standards. Outputs may be more difficult to specify because they depend on demand and complexity – the same resources (inputs) may be able to produce more services (outputs) if there are plenty of clients that are easy to reach and that have simple needs.
125. Outcomes are very difficult to specify in advance because they tend to be heavily dependent on other factors – for example, the success of efforts to address unemployment among

specified groups are often more influenced by the economic conditions than specific services provided to individuals.

126. **Attribution** is complicated by ‘the problem of many hands.’ Social outcomes are influenced by a web of service provision by a number of government departments, and service provision by external providers. To date, it has not proven tractable internationally to causally disentangle the contribution to outcomes of different providers, nor to aggregate the mix of services required for complex cases (from social welfare, to teachers, to police, etc.) to a single provider.
127. A second challenge with attribution is the **timeliness** of response. Early childhood education is associated with lifelong educational and employment outcomes. This means that the full impact of early childhood policies implemented today will not be realised for many decades. Indeed, some interventions have intergenerational effects (for example, exposure to family violence in childhood is a predictor of committing violence as an adult, and so interventions to reduce family violence can reduce impact in successive generations) or even permanent effects (for example, a reduction in biodiversity that cannot be restored).
128. As noted in Part 3 of this briefing, **innovation** tends to be highest when individuals can be given both clear objectives and freedom to manage the achievement of those objectives. Objectives can be clearer toward the left (input) end of the production model, but freedom to manage can be greater toward the right (outcomes) end. If the objectives are vague end outcomes, that are influenced by innumerable factors and where there is a significant delay between the action and a change in the objective, this impedes both the urgency and feedback that would drive people to try different things.
129. Inputs and activities aren’t, of themselves, **valuable to society**. Outputs tend to correlate with value but equally many possible outputs by agencies or external providers are not valuable to society. Outcomes are the thing that has value to society. While specification and attribution tend to be easiest for inputs and activities, moderately easy for outputs, and becomes progressively more difficult for intermediate and end outcomes, value tends to vary in the opposite direction.

Annex Three: Management of performance in networks

130. In addition to mediation of behaviour through strong regulated professions, networks manage performance through a combination of goal congruence (a commitment to improving the lives of the individual/family), output control, bureaucratic control, cultural control, and reputational control.
- a. 'Output control' may work differently in complex cases when the outputs cannot be specified in advance. While the exact mix of outputs cannot be specified, complex care is still delivered through outputs, and these outputs are likely to be from within a knowable range of possible services. Therefore, it may be possible to retrospectively hold individual public servants and external providers for delivering an appropriate quantity of services to an agreed standard, within the hours funded.
 - b. 'Bureaucratic control' refers to the specification of how certain activities should be delivered. While it may not be possible to specify all the activities in a network, some activities may be specified, for example developing an agreed case plan including milestones and evaluation, and reporting on what has been delivered and what has been achieved.
 - c. 'Cultural control' refers to the norms and values that foster cooperation. This requires the setting of expectations that collaborative case management is appropriate and valued by the agency (in the case of public servants) or by the contract manager (in the case of external providers).
 - d. 'Reputational control' refers to the flow of information within networks about network members. This is likely to be particularly effective in local communities where the same individuals will repeatedly interact. Individuals with poor relationships are less likely to be invited to participate in future cases.