

OUTCOMES, CONTRACTING AND RELATIONAL CONTRACTING IN SOCIAL SERVICE DELIVERY

The following is a synopsis of a paper prepared by MDL for the New Zealand State Services Commission as part of work the Commission undertook on improved social services delivery (ISSD).

During 1999 the State Services Commission embarked on a project on Improved Social Services Delivery, testing the hypothesis that:

“The current governing paradigm - that services should be purchased as outputs under closely-specified contracts from providers - creates barriers to achievement of improved social service delivery, and hence social outcomes.”

MDL was asked to provide an overview of three key elements:

- the implications of government moving to an outcomes focus in government spending;
- the approach being taken to the contracting of social services;
- and the implications for government departments of moving to relational contracting.

The question posed was what would departments need to do differently, to shift towards outcome-based delivery and relational contracting?

We used a cross-sector approach for examining the paradigm issues for central government, which provided a strong test of the assumptions that have driven public management and widened the range of possibilities from which to draw ideas about future change.

Our conclusions on each of the three topics were:

Outcomes

Forging links between outcomes and outputs is a fundamental step in the framework and methodology of strategic policy and priority setting. It was, in a sense, what government management reform in New Zealand was intended to be all about: setting strategic priorities and constructing a robust accountability regime.

The Logan report in 1991¹ put the same point another way: that clearer specification and better achievement of outputs was effective only if there was

¹ *Review of State Sector Reforms*, Basil Logan and New Zealand Steering Group Review of State Sector Reforms, State Service Commission, Wellington 1991.

certainty that the production of outputs led to the achievement of outcomes (and went on to say only if the outcomes could be broken down into measurable parts and distributed among the various departments, highlighting the measurement and attribution issues).

Contracting

In terms of achieving social policy objectives, purchase contracting with the aim of efficient, reliable provision under explicit purchase arrangements may well produce the services that are desired by government and identified and specified through departmental service planning and output specification. What will be needed to achieve desired outcomes and thereby help manage social risk, however, is effective contracting that engages providers.

If our analysis correctly identified limitations in the current model for contracting for social services, the extent to which the model can support the future achievement of social goals must be in doubt. This conclusion will hold for the conventional (transactional) contracting model even if considerable improvements were imported to it.

Relational Contracting

Full relational contracting clearly involves a philosophical shift as well as significant changes in systems and procedures.

It does however carry practical fiscal benefits for government, both in the short term by reducing the Government's own transaction costs, and in the longer term by strengthening the Government's ability to fulfil policy objectives through better recognising the nature of the social service provider sector and what it brings to the services provided to end-users/clients.

It is possible in fact that fiscal and policy goals will in the future depend on improved relationships with the sector, and on addressing the concerns arising from the tensions between the sector and funding agencies, and the threats to the viability of the sector.

Much that characterises relational contracting is true of effective relationships generally.

Relational contracting is more demanding of contract design and management than transactional contracting and puts stronger disciplines on the contractor. For example, establishing a trust relationship would require the funder/purchaser, who is usually in a monopoly position, to take the first step in demonstrating 'trustworthiness'.

Specific changes are possible however that would represent an achievable shift in the direction of relational contracting, not necessarily its wholesale adoption. The suggestion above of "intelligent output-contracting" is one avenue that should be explored.