

CHANGING THE CULTURE OF CONTRACTING: FUNDING FOR OUTCOMES

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Abstract

Funding for Outcomes (FfO) is a new approach to contracting that enables holistic services funded by several government agencies to be specified in one contract. Whereas traditional contracts reward providers' effort, integrated contracts focus on achievement – the impact of service delivery and how services contribute to improving outcomes for clients. The project has, in the words of providers interviewed for the FfO project evaluation, “changed the culture of contracting” in New Zealand. The evaluation showed a general belief amongst participants that integrated contracts have introduced a range of improvements, including providers spending more time on service development and having an improved capacity to provide high-quality holistic services, meet client needs and operate more effectively. Reports are more relevant and can be used to examine the effectiveness of policy underlying government investment in services. The new approach is involving funders and providers, often for the first time, in collective contract negotiation and requires the building of strong relationships with all the parties. This gives providers a better understanding of funders' requirements and funders a better understanding of the complete service being undertaken by the provider.

INTRODUCTION

The Funding for Outcomes (FfO) project arose as one response to the findings of the Community and Voluntary Sector Working Party in 2001. The Working Party identified major issues that needed to be addressed to improve the way that the government funds and enters into contracts with community, iwi and Māori organisations. These issues included the complex reporting requirements set by government agencies, the “siloes” approach to contracting taken by these agencies, and the inability of providers to influence contract terms.

1 This paper is based on a presentation to the Social Policy, Research and Evaluation Conference, 3–5 April 2007, Wellington, New Zealand.

FfO was established in 2003 as a mechanism for government agencies to collaborate in contracting with community organisations and, as a consequence, to reduce contract compliance costs for providers. It is changing the culture of government contracting with not-for-profit social service providers in New Zealand.

BACKGROUND

Interdepartmental work on contracting with non-government organisations (NGOs) that began in 1997 had noted that government's segregated approach to contracting was counterproductive in delivering services to clients with complex and multiple needs. An interdepartmental committee tackling this problem in 1999 developed a programme *Best Practices in Funding*. This aimed to improve interdepartmental collaboration and reduce compliance costs for providers by:

- standardising and simplifying contract and grant application documentation
- sharing capability assessments and information between funders, and
- adopting a "lead funder" approach.

Grant application forms were standardised and made available via the internet.

A first attempt was made at developing an integrated contract in 1999 with a provider delivering a wraparound (holistic) service² to clients with complex and multiple needs. Unfortunately, as the evaluation (Ministry of Social Policy 2001) of this pioneering attempt reveals, the contract that emerged was a compendium of the existing siloed contracts, was not simplified, and did not reflect the integrated service being delivered by the provider.

The "lead funder" approach (where one funder managed the contract on behalf of all other funders) was trialled in 1999–2001 and proved unworkable as no one government agency had the technical expertise and knowledge to advise the provider on all aspects of another government agency's business, and accountability needed to stay with the funding source.

Intermittent attempts were made to share capability assessments and information between funders during the same period, but there was no structure in place to normalise and embed this approach and so enable the available funding to be used as effectively and efficiently as possible.

2 A wraparound service is a range of services designed to address the multiple needs of the client and his/her family (e.g. it may include services to address mental health issues, substance abuse, lack of employment, behavioural problems such as violence, and offending).

In April 2003 the State Services Commission and Ministry of Social Development (MSD) jointly released a report on their integrated service delivery programme called *Progress Report on Integrated Service Delivery Programme (Mosaics)*. The programme was part of a set of initiatives under the Review of the Centre that began in 2000 as a comprehensive analysis of the strengths and weaknesses of the public sector and included ongoing work to lift the performance of the public service. The Review of the Centre focused on “circuit breaker” problems – finding new ways of working to resolve specific problems in service delivery, regional coordination including removing barriers to collaboration, and enhancing evaluation of public service performance to assist in achieving desired results.

Also in 2003, Treasury released its *Guidelines for Contracting with Non-Government Organisations for Services Sought by the Crown*. This document brought more uniformity to contracting practices and dispelled common myths about what was allowable in social service contracts between government and service providers (for example, contracts could be made for three or more years not just one year as many government officials then thought).

Against this background, MSD was asked to lead a “whole of government” approach to address the Government’s concerns about the way government departments and agencies were contracting with non-government organisations for services sought by the Crown.

THE FUNDING FOR OUTCOMES PROJECT

In late 2003, the FfO project was established to:

- speed up progress in developing and implementing a more integrated approach to government contracting with NGOs
- reduce compliance costs for service providers
- identify success factors in achieving improved funding practices between multiple government funders and providers beyond the life of the project.

In brief, the FfO project responded to the Ministers’ directive by, first, formalising a collaborative approach through the legally mandated platform of an integrated contract. Second, the project shifted the focus of these contracts from outputs to outcomes. Because all government agencies seek the same high-level, long-term outcome for clients, multiple government agencies can use the mechanism of a single integrated contract to collectively fund each provider. Likewise, each provider can use the integrated contract to describe, deliver and report on either a holistic wraparound service for individual clients or the various different services they are funded to deliver for the same client group.

Contract advisors were initially seconded from across government to form the first FfO team.³ In April 2004 they began work with their government colleagues on reducing barriers to developing integrating contracts by:

- identifying and understanding the barriers to an integrated approach to contracting
- developing policy and operational frameworks to address barriers and issues
- developing and refining the tools and frameworks needed to manage the contracting process
- developing an increased facilitation and brokering presence in the regions to facilitate the design and management of integrated contracts
- documenting and evaluating the process of integrated contract development and management to inform best practice
- sharing best practice experience across government and NGOs on developing common outcomes and monitoring the results of service delivery
- integrating quality assurance, audit and reporting processes
- instituting a senior officials group representative of government departments (“Steering Group”) that would provide high-level advice on the project, and confirm the decision-making process about who would be involved in the project
- using a transparent escalation process through the project steering group when cross-government barriers arose.

In the pilot stage of the project the FfO team was tasked to work with up to 20 significant service providers (at least eight of which were Māori or iwi providers) and with smaller organisations requiring capacity building and support. The team was also asked to work with at least two providers of disability services, and later with providers delivering family violence prevention services.

BARRIERS TO INTEGRATED SERVICE DELIVERY

Each government funder has responsibility and accountability for services and activities in its own sphere of influence or portfolio. Each government agency contracts with the community, iwi or Māori organisations that will best deliver its programmes.

The community, iwi and Māori organisations delivering these services tend to specialise in delivering particular kinds of services (such as service to prevent family violence, or to improve parenting skills) or deliver services to meet the needs of particular clients (such as teenagers who have dropped out of school or are likely to do so).

3 These secondees have now been replaced by a dedicated team of contract specialists based in Wellington.

To finance this work, and pay the salaries of the professional people who deliver these services, providers seek funding from numerous sources, including various government agencies. This funding is secured through bilateral contracts for each programme or activity that the provider agrees to carry out on behalf of the funder. The programmes the provider contracts to deliver will not necessarily perfectly match the needs of all the clients with whom the provider is working. Providers may also take on contracts for work that is not their main focus so that they can use some of the funding for interventions their clients need.

Providers, therefore, often have several contracts with multiple government funders and this creates fragmented service funding. These multiple contracts mean providers work with multiple and diverse IT systems, legal requirements, payment systems and administrative processes.

Providers have major problems reporting to government on their use of the money for service delivery, as their work often does not fit into the reporting template, particularly if a contract is highly specific in telling a provider what to do. They can be at risk of being censored for not doing what their contract specifies, even if their contract does not address their particular client groups' specific needs (but what they are doing does).

Providers often do not get credit or funding for the work they undertake "outside" of their contract. Providers spend considerable time breaking down their work to fit multiple report templates that do not match what they do. For some providers this task is so complex they hire a person just to write service reports.

Providers also spend time providing the same information for reports and for audit purposes, but in a different format to different government agencies.

While this is frustrating and costly for providers, it is also problematic for funders.

Under bilateral contract arrangements each government agency focuses on its own contract and the delivery of its own particular programme or service. The government agency may be unaware of the other services that the provider is delivering, and may not appreciate that the provider is delivering a holistic service, or that the various services delivered by the provider to the same clients could be more efficiently managed if merged into one integrated service.

Funders do not have a basis for understanding the effort needed to work with clients when they only see part of the service that is being delivered. There is much scope for misunderstanding about the effectiveness of service delivery and value for money,

and the government agency does not receive a clear picture of which interventions are working for the client and which are not.

ENABLING INTEGRATED SERVICE DELIVERY THROUGH INTEGRATED CONTRACTING

Integrated contracting encourages all the parties involved to think differently about how they contract with social service providers. In particular, the integrated approach has introduced two major new features to contracting:

- a collaborative approach on the part of government agencies
- an outcomes or results-based focus.

Collaboration

All the agencies with an interest⁴ in the service being delivered, including local authorities, district health boards and philanthropic groups, are party to the integrated contract. Agencies work collectively to ensure the programmes they are funding meet client needs. By doing this, service gaps (and the agencies that should be funding work to fill these gaps) are more obvious (so those funders can also be invited to become a party to the contract). Where possible, funders will work with each other to merge their service requirements into an integrated service.⁵ This is one of the key benefits of the integrated contract. Multiple individual contracts for specific services cannot reflect an integrated service, whereas the single integrated contract is able to document the complexity of interventions required for wraparound or holistic service delivery. Sometimes government agencies that do not fund the service will, nevertheless, become a party to the contract by providing non-financial resources (such as data, or personnel who work alongside the provider).

As a party to the integrated contract, providers are also involved in developing the contract. This improves parity for the provider with funders. It is also giving effect to the promise made in the *Statement of Government Intentions for an Improved Community–Government Relationship* that community organisations participate in decision-making on the delivery of services.

4 While this is usually a funding interest, integrated contracts also include agencies that are interested in the results of service delivery. These agencies may provide non-financial support. Other agencies do not fund the service, but may provide funding to assist the provider build capacity.

5 This occurs particularly where the provider is delivering a wraparound, holistic or case managed service to assist the client (whether an individual, family or community) meet his/her or their needs.

Collaboration through FfO integrated contracting is proving to have many advantages for all participants:

- Funders meet each other – often for the first time – and improve their knowledge of the range of work performed by providers to meet the multiple needs of clients.
- Funders also share information about their own areas of work and expertise so get a better understanding of their co-funders' core work.
- The collaborative effort means improved relationships between funders and providers, and the development of greater trust so that there can be more creativity in finding effective interventions to get the right results for clients.
- By involving the provider in the contract discussions, everyone gets a better, more well-rounded picture of the work.
- Providers are, for the first time, feeling involved in the process of contract development, as opposed to being given a contract to undertake.
- Service delivery can be made more cost effective when funding is transparent and the funding that is available can be used more efficiently.
- Providers' compliance costs are falling when they are required to write fewer reports, and when reports more closely match the service being delivered.
- The increased upfront effort in drafting the results-based contract is mitigated by the certainty provided by the longer term of the contract (three years), and the greater robustness of the process.
- The capability of new contract managers is raised by the knowledge they gain from participating in integrated contract development and joint review meetings.
- All funders learn from the dialogue with providers – and this is especially apparent at review meetings.

Focus on Outcomes (Results)

By taking an outcomes focus, the contracts articulate the results that the provider is seeking for clients by delivering the service, and that government is seeking for clients in funding the service. The implications are far-reaching.

- There is a better match between what providers do and what their contract says it wants to achieve.
- Funders and providers have a clearer understanding of the results sought from the services and of the clients for whom the services are designed and delivered.
- Clients have a better chance of getting the services they need.
- Reports go beyond counting the number of interventions.
- The contract articulates the changes that the clients are expected to experience and reports document these results, so are more meaningful, and also reflect the progress made in achieving the results.
- The outcomes focus builds opportunities to review trends and see whether the outcomes we are looking for, for clients, are being achieved.

- By monitoring results, providers' efforts are acknowledged and the effectiveness of policies and programmes is made transparent (whereas in the past providers may have been seen as non-performers if clients did not respond as expected).
- The results-based reports provide opportunities for performance measurement – that is reports can record how well and how quickly a service is reaching the client group, and the extent to which clients participate in the programme or service activities.
- In a collaborative situation where all the funders and the providers are collectively reviewing the reports and viewing trends, there is a richness of information-sharing and opportunities to build knowledge about what is happening for particular groups of clients.

ASPECTS OF THE INTEGRATED CONTRACT

Pre-Approved Standard Terms and Conditions

The contract instruments have been agreed for use by all the government agencies involved in the process, and their legal teams. Several government agencies (MSD, Department of Labour and district health boards among others) are now starting to use the integrated contract standard terms and conditions in their own contracts with social service providers. This practice is paving the way for a single generic set of terms and conditions to be utilised with third-party social service delivery across New Zealand – whether the long version for use with larger contracts over \$200,000, or the pared-down short version for smaller contracts.

Using a pre-agreed standard set of terms and conditions provides the opportunity to speed up contract negotiation and sign-off processes, thereby reducing transaction costs for all parties.

Each Funder's Accountability and Relationship with the Provider is Maintained

The funding from each government agency is kept separate (i.e. is separately invoiced) to give transparency to the money flow. In other words, the integrated contract enables each government agency to retain its autonomy and accountability for its own portfolio responsibilities, funding, and relationship manager while joining in funding collaborative action to address clients needs in quite complex ways.

Contract service descriptions identify which funder is paying for each activity and even when activities are jointly funded it is still clear which funder has responsibility for funding which intervention or part of it.

Clarity of Structure and Processes

Integrated contracting has a clear structure and processes so that everyone involved knows their role and what is expected of them. The process is facilitated by a Funding for Outcomes Contract Advisor whose role is unbiased and non-representative of any one funding agency.

Legal Status

The integrated contract is a legal document. This means that all parties must engage in the process and cannot make unilateral decisions or withdraw unlawfully.

The process and the product are mandated (by Cabinet and by senior management across government, including the Centre Agencies⁶), are supported by providers, and meet government quality assurance requirements.

Flexibility

Integrated contracts are flexible so that government systems can be accommodated when it would take too long to change them (e.g. payment systems that have been decreed through regulatory or legislative processes). The system can cope with fee-for-service funding as well as payments in advance or in arrears. This is particularly important because integrated contracts can accommodate the full range of Crown entities as well as non-government funders such as funders from the philanthropic sector, and non-monetary resources (like data sets, equipment, accommodation or personnel).

ACHIEVEMENTS OF THE FfO TEAM TO DATE

In developing integrated contracts the FfO team has achieved some significant milestones. It has developed new contract instruments and new processes which did not previously exist. These include:

- provider risk assessments that were developed with the support of the Office of the Auditor-General to protect both the provider and funders (and which form the basis of the shared monitoring framework)
- a working together charter documenting expectations, roles and responsibilities of government officials participating in an integrated contract
- standard terms and conditions drafted with input from government legal teams, some providers, and academics from the community and voluntary sector (now being used by several government agencies as their standard)

6 State Services Commission, Treasury, Prime Minister and Cabinet and also the Office of the Auditor-General.

- a template for drafting the “special” terms and conditions – that is, a single document in which is recorded the results expected from the services delivered by the provider; the activities that the provider will carry out in order that the expected results will be achieved; the target group, volumes; funding amounts and payment dates for each funder
- a framework for shared monitoring
- an integrated report template (that matches the expected results) and reporting schedule (including dates of synchronised or integrated audits) which forms the basis of the collaborative review process
- an integrated contract variation template
- collaborative integrated contract review meetings.

In implementing the integrated contract process the FfO team has worked with over 45 government agencies (including district health boards, local government and Crown entities) in main centres and several small towns across New Zealand. The work has entailed in-depth discussions with legal, financial, IT and procurement teams, contract managers, advisors and specialists, and policy staff. The FfO team has also worked with over 80 providers. From that work:

- 23 integrated contracts are operational and the team is supporting the management of review meetings
- 26 integrated contracts are under development.

This means around 250 bilateral contracts have been, or are being, pulled into 49 integrated ones.

Another 10 providers are being assessed for inclusion in the project, and there is a waiting list. The team has also worked with around 20 providers whose work did not lend itself to an integrated contract, but acted to resolve contracting issues or provide other capacity building and support. Around half of the integrated contracts are with iwi or Māori providers.

Current work often involves facilitation of a redraft of the results and reporting framework of existing integrated contracts. With increased experience in this work, funders are seeing the value of documenting in the contract the integrated service delivered by the provider, and can also see where the part of the service they fund fits. Review meetings also provide an opportunity for funders and providers to collectively assess whether the service being purchased is the right service, and to identify service gaps.

In 2007 the FfO team is focusing on providers of family violence prevention services. It is also working with providers of youth services, disability services, youth offending prevention, family wellbeing/whānau ora services, early childhood services, services for ethnic minorities, services for people recovering from substance abuse, paroled prisoners, and so on.

As well as dealing with individuals, providers also work with families and sometimes whole communities. The integrated contract reporting framework is flexible enough to handle this diversity of clients and also addresses the tension between providers' desire to report on their whole service and each funder's requirement to know the number of clients that received the services it funded.

The team has developed and is delivering a training programme for participants in the integrated contract process. This aims to:

- bring everyone up to speed with changes in documentation
- ensure each government funder's contract manager understands his or her role and responsibilities in managing the integrated contract, and
- give participants practice in developing a results-based contract.

IMPACT AND VALUE OF INTEGRATED CONTRACTING

The process of integrating contracts is shifting the culture of contracting across government from micro-management to a client-focused relational approach built on trust. The strong emphasis on collaborative reviews of the provider's work provides a robust, risk-aware, supportive service delivery environment. The reviews emphasise continuous improvement through adoption of "best" practice. Funders have a better understanding of what they are purchasing, the cost of service delivery and gaps in service delivery become more transparent, and the myriad tensions between providers' and funders' agendas are explored and addressed.

The earlier difficulties encountered in developing integrated contracts are being overcome with the development and refinement of tools and processes. As government funders become increasingly familiar with these processes and with the results framework introduced by Mark Friedman (2005), the speed with which integrated contracts can be developed is increasing.

In 2006 an evaluation was carried out on the first two years' operation of integrated contracts. Despite the newness of the process at that time, the evaluation found that both providers and funders supported integrated contracting and wanted to continue with the process. Benefits identified included:

- better service development and planning
- increased capacity and transparency in the delivery of holistic services
- greater capacity to meet the needs of clients and focus on achieving longer-term outcomes
- providers experiencing improved operating effectiveness
- more transparent accountability
- greater certainty of funding through longer-term contracts

- a range of transaction benefits resulting from a reduction in the number of reports required, a reduction in the number of separate provider–funder meetings, improved understanding of funders of the services being funded, and the focus on results of service delivery for clients.

The evaluation identified that results-based integrated contracts are introducing a new contracting culture. The FfO project has acted as an important catalyst for ongoing evolution of contracting processes that are collaborative and outcomes focused. Under these evolving processes funders and providers are being involved, often for the first time, in collective contract negotiation. Providers value this changing culture of contracting for a range of reasons.

- They feel they have a better understanding of funders' requirements.
- Their participation is beginning to be on a more equal footing with funders.
- Funder–provider relationships are valued.
- The nature of their services is more accurately reflected in contracts.
- Their achievements are more identifiable in the reporting frameworks.

Funders feel that they have a better understanding of the operational and policy contexts in which their co-funders work and a better idea of how to work with and support providers individually and collectively in ways that are leading to better service delivery and better outcomes for clients.

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