Designing a new Collective Operating and Funding Model in the New Zealand Public Sector

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DISCLAIMER

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Abstract

The case for change for better outcomes for vulnerable people with complex needs through the use of collective methods has been made and accepted. A useful method to pragmatically determine the principles to guide the change required to implement collective methods is through analysis and consideration of specialist and collective operating and funding models. A specialist operating model assumes that value is added by application of a specialist (or functional) process. In contrast, a collective operating model assumes that public value is added by collaboration. Specialist and collective operating models have substantially different expectations, performance characteristics, information needs and accountabilities. That explains much of the difficulties in implementing collective operating and funding models within a hierarchical public sector. The resulting challenge is not just to enable separate specialist and collective models to thrive, but also to integrate these models so the public sector management system remains cohesive and meets the legitimate demands for accountability of a representative democracy. This paper seeks to respond to that challenge. It proposes a dual system in the New Zealand public sector that could enable collective operating and funding models to flourish while maintaining the benefits of efficiency and alignment of performance expectations of the current specialist operating and funding models. Several design principles are proposed that could be used to develop a collective model as a separate but connected system in the New Zealand public sector. The key structural elements of such a model are suggested and comments made on key decision-making processes.

Executive Summary

The challenge of collaboration has long been considered a New Zealand public sector management issue. Both the Productivity Commission, drawing on collective impact literature, and the Welfare Expert Advisory Group (WEAG), posing a challenge to move to ‘whakamana tāngata’ – restoring dignity to people so they can participate meaningfully with their families and communities, have emphasised a more collaborative approach for improving the wellbeing of citizens with complex needs. The experience of Whānau Ora as reported by the Review Panel shows that such a collaborative approach results in positive changes and creates the conditions for those changes to be sustainable.

Taken together, these recent reports show the case for change for better outcomes for vulnerable people with complex needs through the use of collaborative methods has been made and proved. They also however highlight that successfully implementing such collaborative approaches in the public sector is hard.

This paper focusses on the issue of how the government can best collaborate at the front line with organisations and individuals looking to tackle complex variegated problems at the local level. It applies operating and funding model analysis to provide insights as to why collaboration with such organisations and individuals have been so hard for the New Zealand public sector. The analysis also provides insights for designing institutional change to encourage successful collaborative and collective approaches where they are most needed.

Designed using a performance-based accountability framework, the NZ public sector’s current operating and funding models are aimed at ensuring public services are delivered equitably, efficiently and effectively. Specialist, hierarchical, operating models, that assume that value is added by application of a specialist (or functional) process are naturally preferred where hierarchies have a relatively well-formed understanding of the relationships between inputs, outputs and outcomes.

But this system preference is problematic where tailored service packages are needed to meet complex variegated individual circumstances. In these complex situations, a hierarchical public sector cannot realistically identify the best paths to improved outcomes; there are different views about the nature of problems, their cause and solutions. Pragmatic responses are required in the light of the radical uncertainty that exists.

In contrast to specialist operating models, collective operating models assume that value is added by purposeful collaboration that tackles knowledge and resource deficits of specialists and those at the top of the hierarchy to address complex problems. The necessary collaboration must happen at the front line, which challenges vertical lines of accountability, whether there is coordination at the top or not.

The different assumptions as to how value is added by specialist and collective operating models lead to substantially different performance expectations, decision-making processes, information needs and accountabilities. A single operating model is not optimal.

Consequently, a dual system is needed to enable both separate specialist and collective operating and funding models to flourish in the New Zealand public sector. That would ensure the value created from the NZ public sector specialist operating model is not compromised while also enabling better value to be provided by the NZ public sector in tackling complex problems, while retaining the cohesion of the overall public sector management system.

The following five design principles for implementing such a change are suggested:

1. The New Zealand public sector management system should develop a separate (dual) centre of gravity for the collective model rather than seek to extend current models (pages 7-15).
2. Collective models should be targeted at complex variegated problems where interventions need to be adaptable at a local level, and outcomes are emergent rather than predictable and controllable. (pages 15-16)
3. Collective operating models should:
   - support the flexibility of thought and action required to deal with novel or unanticipated opportunities and problems,
   - motivate participants with challenging and achievable goals, and
   - work to develop understanding and trust across agency-professional roles and boundaries. (pages 17-20)
4. The responsibility of the public sector hierarchy should not be to steer collective entities, but to create the environment in which the smart practices necessary for self-governing collective operating models can flourish. (pages 20-21)
5. The mana of the collective should be used both as a basis for providing funding for collective entities, and a basis for accountability for the results of that funding. (pages 21-24)

Establishing a collective operating and funding model in accordance with these design principles would particularly impact:

- Ministers, as the ultimate decision-making governance group, answerable to Parliament for the use of public money on the basis of the mana of the collectives invested in. Their authority matches this accountability when they are the ones that authorise the collective investment strategy, and make decisions to invest in the relationships with individual collectives, based on advice applying a rigorous analysis of the mana of the collective entities seeking government investment.
- The Treasury, in its role providing institutional design advice, and assessing the overall investment strategy as a budget advisor to Budget Ministers.
- The collective investment manager as a new centrally-located presence, managing the relationship with each collective. The role of the investment manager would include developing and assessing collective investment proposals, portfolio management and divestments. A centrally located collective investment manager would enable the public sector to consider stress points in the overall policy delivery landscape and the capacity of collective entities in a neutral way in formulating strategy to deal with these stress points. Also, a centrally located structure would be able to encourage cross-agency proposals, and to partner and manage relationships in a way not possible by specialist ministries, whose incentives are to develop proposals within their own domains and sectors.
- Collectives, as the entities that bring collaborators together to:
  - define the problem and create a shared vision to tackle it,
  - make co-ordinated interventions with the targeted population,
  - establish a shared measurement basis to track progress and allow for continuous improvement,

- foster and co-ordinate collective efforts to maximize desired impact, and
- build trust and relationships among all participants.

The collective operating and funding model introduces new rules for how key decisions are made by these players: the initial investment decision, ongoing management of relationships and exit decisions. A collective investment strategy, a separate budget track and new governance arrangements to encourage horizontal accountability within collectives are proposed to ensure the sustainability of the collective model. The possibility is mooted of a new type of appropriation for investing in collective relationships based on the mana of the recipient to achieve outcomes not attainable by the public sector alone.

The establishment of such a separate collective operating and funding model in the New Zealand public service has the potential to draw citizens, iwi, NGOs and others into more collaborative and constructive relationships with the New Zealand government to pursue the resolution of the most complex and important challenges our country faces.

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1 Introduction and Overview

While the New Zealand public service generally performs well against international comparators, a persistent theme has emerged around the difficulties of collaborating across boundaries. At times, top-down methods of collaboration and coordination have shown potential, as with internal administrative activities, where standardised services are being delivered, or where Ministers require joined-up policy advice. Current public service reform efforts have been designed to facilitate such collaboration.

However, top down coordination methods where tailored service packages are needed to meet complex individual circumstances have disappointed. In such cases, collaboration must happen at the front line, which challenges vertical lines of accountability, whether they are coordinated from the top down or not.

This paper focusses particularly on the issue of how the government interacts with other organisations and individuals looking to tackle such complex variegated problems. It suggests a set of pragmatic proposals to improve institutional arrangements in the New Zealand public sector to better enable such collaborative or collective efforts to thrive at the local level.

Chapter 2 backgrounds the issue. It draws from three major reviews of how the NZ public sector is performing that have separately explored aspects of the delivery of social services:

- the Productivity Commission 2015 Report on Social Services
- the Welfare Expert Advisory Group's 2019 Report, Whakamana Tāngata - Restoring Dignity to Social Security in New Zealand.
- the independent Review Panel Report on the Whānau Ora commissioning approach

Taken together, these reports make and prove the case for change for better outcomes for vulnerable people with complex needs through the use of collective or collaborative methods. The chapter also highlights that implementing such collaborative approaches in the public sector is hard.

Chapter 3 considers the use of operating model and funding model analysis as a means of exploring the issue. In this context, operating model and funding model analysis is essentially business model analysis used by the private sector, but adapted to be relevant to the public sector. The essence of this approach is to question the assumptions underlying the current operating model and funding models to ensure they are fit for purpose.

A major insight of this approach provides is that operating and funding models that support the delivery of specified interventions determined by a hierarchy are fundamentally inimical to models where the determination of objectives and successful progress towards those objectives are assumed to be the result of collaboration. Framed this way, the current challenge for the New Zealand public sector is to develop a system to operate under two different gears: efficient and specialist where that best provides the most benefit on the one hand, and collaborative and across-interests when important on the other.

Critical success factors for collective operating and funding models are considered. In keeping with the aim of proposing a pragmatic solution to the issue, particular reference is made to reflective experiences of experienced practitioners in pulling together a suggested list of critical success factors.

The key conclusion of chapter 3 is that rather than the chaos and confusion that results from a single system that has competing definitions of performance, and different requirements of management and accountability, a clearer separation of the specialist operating and funding models and the collective operating and funding models could deliver an overall public sector management system that can operate better both when there is tolerable confidence, but also where there is radical uncertainty, about how best to achieve wellbeing goals. Five principles are proposed for a more clearly separate system.

Chapter 4 suggests the key elements of an institutional reform that would enable the New Zealand Public Sector Management System to better operate and fund dual collective and specialist models, while integrating them within an enhanced accountability framework to maintain democratic legitimacy.

Maintenance of that democratic legitimacy is crucial, for the constitutional principle that Parliament control of public funds, and the responsibility of Ministers for the public money voted, are bedrocks of the New Zealand public sector finance system. Chapter 4 proposes that legitimacy can be maintained if Ministers investing in relationships are accountable for the quality of that relationship and the mana of that collective, and not for the outputs nor the outcomes of that collective. Those must be determined in a collaborative manner by the collective itself.

There is a vast amount of relevant literature that could inform or challenge the ideas in this paper. A full literature review would be a very challenging task, and is not the objective of this paper, which is rather aimed at developing a new and pragmatic institutional change to tackle a pressing public sector management problem. Nevertheless there are a number of important strands of both the institutional economics literature and the public management and public governance literature that have been referenced through the paper. They provide positive assurance that the ideas in the paper have merit.

2 Background and problem definition: The case for a collective operating and funding model[1]

2.1 Introduction

Collaboration has long been considered an issue in the New Zealand public sector. Both the 2001 Review of the Centre and the 2011 Better Public Services Advisory Group Report paid considerable attention to the topic. More recently, the case for a collective operating approach was made in the Productivity Commission *Report on More Effective Social Services* in 2015 and has been repeated in the Welfare Expert Advisory Group's 2019 Report, *Whakamana Tāngata - Restoring Dignity to Social Security in New Zealand*.

The greatest use of collective operating approaches by the New Zealand government is Whānau Ora, a culturally anchored approach that puts whanau in charge of decision-making, empowering them to identify their aspirations to improve their lives and build their capacity to achieve their goals. A report on Whānau Ora released in February 2019 found that it results in positive change for whānau and creates the conditions for positive change to be sustainable. It revealed that there is potential for whānau centred approaches to be implemented right across the Government.

This Chapter summarises what these three major reports said on collaboration.

2.2 Productivity Commission Report.

In its 2015 *Report on More Effective Social Services,* the Productivity Commission concluded that a new approach, requiring a major shift in thinking and structures, was required to make a real difference for the most disadvantaged New Zealanders.

That report found that mainstream services are mostly provided satisfactorily through the familiar service "silos"– government agencies such as health, education, welfare and justice. Mainstream clients approach these agencies, or non-government organisations contracted by them, to receive the services they need.

However, the Commission reported that the situation is quite different for clients with complex needs, particularly when these needs are inter-dependent so that treating some needs but not others is likely to be ineffective. In these cases a significant degree of coordination across the services is required for good outcomes. However, the provision of services separately through government silos rarely achieves adequate coordination. As a consequence, the Commission argued that new approaches are needed.

After analysing 246 submissions and holding more than 200 meetings with participants in the sector, the Commission concluded that social services are only one influence among many that determine outcomes such as child poverty or family violence. The

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[1] While some literature distinguishes between collective impact and collaboration, this paper is more concerned with the more important, and more useful distinction between specialisation and collaboration. The term collective model is intended to include collective impact models, but will also include other models where public value is primarily added through collaborative activity.

relationships between the various influences and outcomes are complex and often not fully understood. Other important influences include family, friends and community, work and colleagues, and early life experiences. This complex set of influences, compounded across the social services system, makes it impossible for central government to understand all the processes and interactions that bring about system outcomes.

The Commission considered that the Government has neither the community-based knowledge and resources nor the levers to steer the system in a sufficiently precise way to achieve a predetermined destination. The Commission therefore recommended that Government should treat social services as a complex, adaptive system.

Over the years, many in the public sector have recognised the problems of silos and made many attempts to strengthen the horizontal "glue" across agencies. These efforts have tended to focus on "joining up" from the top – often through ministerial or chief executive working groups. The Commission observed that what such initiatives can achieve within the existing structures of government appears to have a natural limit.

The Commission therefore called for changes, so that the cycles of disadvantage that affect far too many New Zealanders can be broken.

The Commission noted that this challenge is not unique to New Zealand, and defies simple solutions. What is clear is that well-intentioned people are attempting to solve complex problems in somewhat of a vacuum of information about what works, why it works, how well it works, who it works for and how much it costs. Fragmented budgets and decision rights frustrate these people.

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

The previous Government agreed with the Commission that the system of social services needs to be more responsive and client-centred, and stated that it was focused on improving the lives of New Zealanders through the development and application of the social investment approach (Treasury, 2017). One aspect of this approach was to explore more devolved and client-centred approaches to improve client outcomes.

It was noted that the principle underlying this is that the people who have the best information to make decisions should be able to make those decisions. Often the client is best placed to make a choice about how to meet their needs. For people with complex needs a local-led approach to integrating services may be more appropriate.

The current government envisages a "repackaged social investment approach that looks at New Zealanders as people with potential". Rather than just looking at risk factors - what are the resilience factors, what are the protective factors and how do we put more of a concentrated focus on that to assist with people realising their potential and being successful. (Kirk, 2017)

2.3 Welfare Expert Advisory Group's Report

The current Government appointed a Welfare Expert Advisory Group (WEAG) in May 2018 to provide advice to the Government on options that could best give effect to its vision for the future direction of the social welfare system.

In 2019 it reported with a set of recommendations to “enable the social security system to serve its most fundamental functions but to move beyond a ‘safety net’ to ‘whakamana tāngata’ – restoring dignity to people so they can participate meaningfully with their families and communities.”

This report noted that the lives of New Zealanders are varied, so any social security system needs to be able to respond to this. The WEAG stated that the “social security system needs to recognise that most New Zealanders are willing to engage, participate, contribute and do their fair share for their communities” and that recent studies recommend ”more personalised services”. For the welfare system to work effectively to deliver the new purpose, principles and values we conclude that mutual trust between parties is essential.”

The WEAG proposed a system based on whakamana tāngata – an approach based on mutual expectations and responsibilities governing interactions between the state and welfare recipients. It is a commitment to improving wellbeing by supporting positive long-term outcomes for the individual, including increased skills and labour market capability. This approach must immediately reform the current obligations and sanctions regime.

The proposed mutual expectations and responsibilities need to be responsive to the circumstances of the individual in a way that will meet the proposed values of the system, with robust checks and balances to mitigate potential negative impacts on individuals and their families. The overarching expectation of both recipients and the Government is to act with respect and integrity in their mutual interaction.

In addition to the recommendations to improve the adequacy, design, and the eligibility rules for income support to reflect the changing nature of families and society, the WEAG stated:

> The reasons people receive welfare support are multifaceted, often involving a complex interplay between social, economic, psychological and biomedical factors. The social security system alone cannot prevent or mitigate these factors. What occurs in other parts of the social sector influences who comes into the welfare system and the outcomes for individuals and families supported by this system. Improving outcomes for people receiving support from the welfare system through the use of evidence-informed investments across the social sector now will benefit individuals and families and potentially save money in the longer term.
>
> A significant group of individuals and families experience multiple and long-term disadvantage needing interactions with several government systems. They require a responsive, person-centred, cohesive system of support to improve outcomes. The lack of coordination between government services was a common theme throughout our consultation.
>
> WEAG (2019)

2.4 Independent Whānau Ora Review Panel Report

Whānau Ora is about increasing the wellbeing of individuals and whānau to lead full lives and uses the power of whānau to improve the wellbeing of individuals and whānau. It provides whānau with appropriate services and support so they can become more self-managing and achieve their aspirations (Te Puni Kōkiri, 2019).

In April 2018, the government agreed to conduct a review of the Whānau Ora commissioning approach. That approach utilises commissioning agencies that are responsible for establishing outcome priorities for their constituent communities, and commissioning outcomes in pursuit of those priorities. They work with the Minister for Whānau Ora (portfolio responsibility for parliamentary accountability), the Whānau Ora Partnership Group (charged with strategic leadership and oversight), Te Puni Kōkiri (the administering agency for appropriations) and Whānau Ora partners, providers and whānau entities engaged to pursue outcomes.

One of the features of the approach is that it is permissive and flexible; designed to bring decision-making closer to communities, and ensure locally appropriate intervention.

The independent panel reported on this review in February 2019 (Whānau Ora Review Panel, 2019). The high level findings were that:

- the Whānau Ora commissioning approach results in positive change for whānau and creates the conditions for the change to be sustainable,
- the Whānau Ora commissioning approach operates within and meets the requirements of, a structured accountability system and operates in a transparent manner,
- Whānau Ora and whānau-centred approaches demonstrate a number of features that align closely with success factors identified in recent reports on good social investment. The Panel were of the view that there is the potential for whānau centred approaches to be applied more widely across government; and
- a number of challenges and improvements were identified in the Whānau Ora commissioning approach and environment.

The panel noted challenges in the wider environment including difficulties in building understanding among government agencies, "leaving some of them hesitant and questioning as to its validity and robustness as an agreed government approach" Other challenges included the extent of buy-in and uptake of Whānau Ora among government agencies, and concerns that government agencies are opting out of their own responsibilities, as Whānau Ora becomes expected to take over their service delivery responsibilities.

The panel noted a significant and formal accountability regime attached to the Whānau Ora commissioning approach. However, they found that although they expected an accountability regime focussed on the achievement of outcomes given the focus of the commissioning regime, there was a significant focus on process. The reporting tools that partners and providers are required to report to commissioning agencies "were generally considered to be time consuming, and not fit-for-purpose, as they did not properly capture the extent of effort or the extent of change experienced by whānau."

The panel also noted a level of external scrutiny of Whānau Ora that was disproportionate to other government-funded initiatives. While there are checks and balances in place to support decision-making, “there were concerns raised that there is no ‘downward transparency’ – that is the criteria, rationale and processes for decision making are not visible to partners, providers and whānau themselves.

2.5 Summary

Taken together, the case for change for better outcomes for vulnerable people with complex needs through the use of collective methods has been made and proved. The public sector needs to do something different.

Both the collective impact literature that the Productivity Commission drew on, and the challenge posed by the WEAG to move to ‘whakamana tāngata’ – restoring dignity to people so they can participate meaningfully with their families and communities emphasise a more collaborative approach. The experience of Whānau Ora as reported by the Review Panel shows that such a collaborative approach results in positive change and creates the conditions for the change to be sustainable.

The reports also however highlight that implementing such collaborative approaches in the public sector is challenging. The Productivity Commission reports in particular on the limitations of top-down driven models to implement collaborative models. The WEAG noted a common theme throughout their consultation of a lack of coordination between government services. The Whānau Ora Review Panel highlighted continued questioning of Whānau Ora’s validity and robustness as an agreed government approach, and accountability regimes that are inappropriately designed for Whānau Ora’s approach.

This paper suggests a way to respond to those challenges.

3 Analysis of Operating and Budget Models

A good business model (or in the public sector, a good operating and funding model) is essential to every successful organization. Business models are therefore an important management concept, although there can be some fuzziness associated with the term. This chapter seeks to clarify the meaning of operating and funding models and to demonstrate their usefulness for public sector institutional design. It then proposes changes to the current models in the New Zealand public sector to facilitate the collective approaches that the previous chapter identified are needed. A set of principles is then proposed to enable a separate collective operating and budget model to thrive.

3.1 Business Models

The idea of a 'business model' originates in the corporate sector. It has been described as "a term of art" used to glorify all manner of half-baked plans (Lewis, 2001: 254). And like art itself, it's one of those things many people feel they can recognize when they see it (especially a particularly clever or terrible one) but can't quite define. He offers up the simplest of definitions — "All it really meant was how you planned to make money"

Yet in 1994, when the concept was first developed by Peter Drucker (Drucker, 1994), he was referring to "assumptions about what a company gets paid for". He was more interested in the assumptions than the money, because he had introduced the theory of the business concept to explain how smart companies fail to keep up with changing market conditions by failing to make those assumptions explicit. (Ovans, 2015)

A good business model answers Peter Drucker's age-old questions, 'Who is the customer? And what does the customer value?' It also seeks to answer fundamental questions of managers: What are the ways in which value is created and captured? What role do organizational activities play in creating value? (Magretta, 2002) (Zott, Amit and Massa, 2010)

The term business model came into widespread use with the advent of the personal computer and the spreadsheet, which let various assumptions be tested and, 'modelled'. By enabling companies to tie their insights much more tightly to the resulting economics — to link their assumptions about how people would behave to the numbers of a pro-forma Profit and Loss Statement — spreadsheets made it possible to model businesses before they were launched. (Ovans, 2015) (Magretta, 2002)

As a consequence, the use of the business model concept has become increasingly popular by management, particularly in disciplines such as strategic management and corporate investment. It enables crosscutting examinations of performance drivers in both well-established and emerging organisations (Maucuer and Renaud, 2019). A critical element of business cases for major project proposals is the articulation of the assumptions on which the success of the proposal depends (i.e. the business model) (Treasury 2019).

Introducing a better business model into an existing market is the definition of a disruptive innovation. Understanding such disruption is helped by focusing on the customer value proposition in the business model. It is then possible to identify those assumptions, those aspects of the profit formula, the processes, and the resources that make the comparable business models not only better, but harder to copy or respond to, e.g. a different distribution system, perhaps (the iTunes store); or faster inventory turns (Kmart); or maybe a different manufacturing approach (3D printing). (Ovans, 2015)

Despite the ubiquity of the use of the business model in practice, the concept has been a challenging one for academic researchers, who have struggled to settle on a unified view. This has led to a troubling and ongoing conceptual heterogeneity (Massa, Tucci & Afuah, 2017). Various explanations have been put forward to account for this, including the concept's lack of theoretical underpinnings (Porter, 2001) the broadness of its definitions (Zott & Amit, 2013) and, ironically, from silo-isation; that the numerous and diverse business model approaches have developed in isolation in distinct disciplinary fields, in line with authors' respective research interests.(Maucuer and Renaud, 2019). That may explain why greater use has not been made of business model analysis in considering the design of institutions where complexities make the underlying assumptions extremely tentative.

For the purpose of this working paper, the essence of the business model concept is represented by the notion of "the set of assumptions that underlie the proposition that specified business activity will add value"

3.2 Operating Models

Translating the concept of the business model to public services, the key point of difference is that the main objective of public sector entities is to achieve intended outcomes by delivering services to the public, rather than to generate a profit for investors (IPSASB, 2014). The value that is generated by a public sector entity for citizens is not reflected in its revenue from customers.

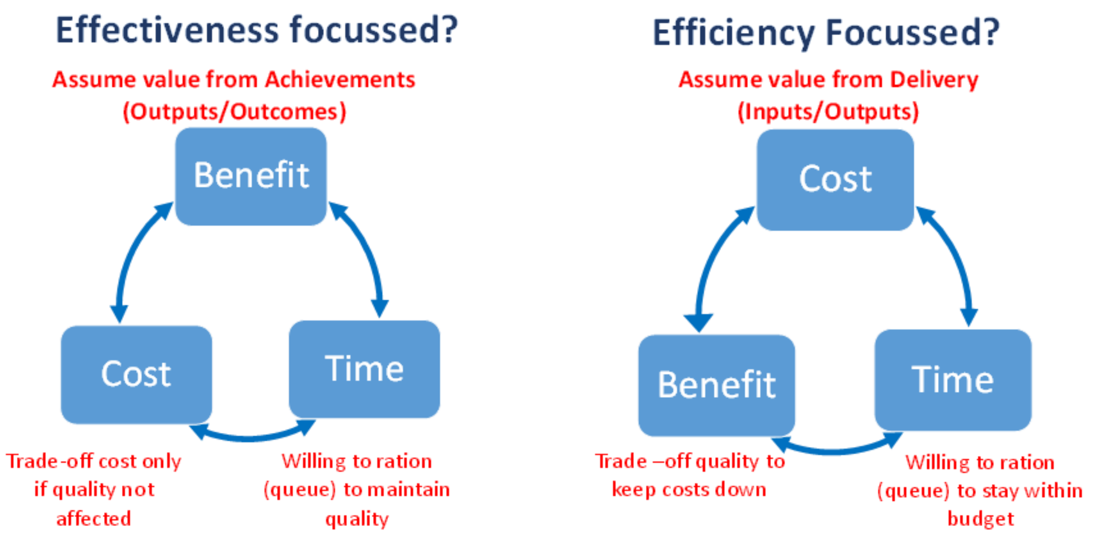
The business model in the public sector therefore splits into a separate operating model (the set of assumptions over how the entity adds value) and a funding model (the set of assumptions on which the entity is funded and held accountable). It is desirable that these two models are integrated, and indeed much of the public sector planning and budgeting process is aimed at ensuring that pressures and tensions between the operating and funding models are surfaced. But unlike businesses where assumptions about organisational activity and customer behaviour feed directly into assumptions over revenue streams; in the public sector the underlying assumptions must be considered separately. In the private sector, success usually means more revenue, and failure less. In the public sector the reverse can be true, as budget decisions direct resources to areas where desired outcomes are not being achieved.

In his paper, included as an annex to the Productivity Commission Report, James Mansell argues that the social sector's operating model is the fundamental reason the sector is slow to innovate and does not reward success (or respond to failure) quickly enough, and that it often does not know what works or where to invest. He argues the government has organised it to be a system that is good at productivity through cost reduction as this is assumed to be the best way to add value. Its operating model drives for productivity improvements by using various iterations of the Taylorist school of thinking, including the modern variants of Lean Six Sigma and Balanced Score Cards (Mansell, 2015).

He characterises the current approach as emphasising the value of specialisation and reductionism to manage processes. The underlying operating model assumption is that centrally planned, highly specified processes, and micro-management of inputs and outcomes can all work to reduce costs by reducing waste. Central actors look for duplication and invest in innovation aimed at production efficiency. The result is a sector that is segmented into groupings organised around distinctions between services and professions. Budgets, line management, accountability, key performance indicators, research, innovation, risk management and financial models all align around deeply entrenched servicing channels – to meet this assumed need to improve the operational efficiency of each channel (Mansell, 2015).

Essentially his challenge is that the operating models in the public sector are too efficiency-focused and insufficiently effectiveness-focused. As a consequence of its operating model, the current social system will never be collaborative.

Figure 1 – Assumptions of value creation



The problem for those that want the operating model to be both effective and efficient is that they are wanting a hybrid operating model – a model that assumes public value is added by a hybrid of delivery and achievements.

Hybrids bring different objectives and assumptions together. Economists have long viewed them with suspicion. For example, Adam Smith on hybrids, as on so many other important topics, was insightful and prescient. Commenting on the conflicting goals and interests of the joint owners of the East India Company, he concluded that “no two characters seem more inconsistent than those of trader and sovereign’ (Smith, 1776).

Hybrid organisations require multidimensional performance assessment to support their operating models. The measurement of the incremental achievement of public goals is never easy. It is hard enough to design systems and rewards in public organizations that promote functional behaviours and discourage dysfunctional ones. Doing so in hybrids is an order of difficulty again.

However it is possible. Research and development departments can co-exist within production oriented companies. Indeed it can be argued that marketing has a natural focus on effectiveness while production has a natural focus on efficiency. The key is providing the space for diversity and innovation to flourish, while at the same time constraining disunity and waste. Generally there is a structural divide between such efficiency-focussed and effectiveness-focussed activities. (Kotter, 2015)

Silos are an inherent part of hierarchical operating models. They can be made with thinner walls and leaders can try and make them less parochial but they cannot be eliminated. Attempts to overcome this problem include the use of project management organisations to handle special projects, inter-departmental task forces, strategy consultants, strategic planning, building change management capacity and implementing structured change processes to over-come complacency, lower resistance and increase buy-in. All of which can work but generally in a limited way and generally only within an organisational structure (Scott et al, 2016).

The point is not that specialist models cannot collaborate, nor that collective models cannot employ specialisms. Rather, the critical point is that because of the model's assumption that value is primarily added through specialisation or through collaboration, when trade-offs must be made within an entity, the operating model determines if those decisions or trade-offs will favour hierarchical specialisation or horizontal collaboration.

In his recent book, "The Tower and the Square" Niall Ferguson suggests that conflicts between hierarchies and networks have been a feature throughout history, but also that they necessarily co-exist (Ferguson, 2018) He warns that there's not a dichotomy between hierarchies and networks, but rather a continuum. A hierarchy is in fact a network where the edges favour a central node to communicate with their peers.

The Productivity Commission also observed that there are constraints on collaboration. Within hierarchical entities organised along specialised lines, collaboration must always come second to specialisation.

At some point it is necessary to establish entities that are designed from the ground up to provide value through collaboration with a collective operating model, with the merits of specialisation taking second place.

3.3 Funding Models

Whereas the operating model relates directly to performance decision-making and assessment, the funding model is concerned with budgeting (resource allocation) and accountability.

This current public sector financial management model was designed with a number of purposes in mind. New Zealand's state sector financial management system aims to:

- help the government of the day translate its strategy into action
- focus spending on outcomes sought by the Government
- promote informed decision-making and accountability
- identify and actively manage fiscal and non-fiscal risks
- encourage a responsive, prudent, efficient and effective state sector. (Treasury, 2011)

For the New Zealand Public Sector, the overall funding and accountability models currently combine the approach of fixed nominal baselines with a fiscal allowances framework. (Treasury, 2001)

Under the Public Finance Act, appropriations for departmental spending are typically based on classes of outputs. As the funding for particular inputs is not specified in the annual appropriation, departmental chief executives have some discretion in determining which inputs to purchase in order to provide the outputs specified in appropriations. The output prices are fully costed, and contain no hidden subsidies.

Chief Executives are therefore incentivised to use their discretion over input costs to deliver the greatest amount of outputs.

Departmental outputs cannot be benchmarked to an external market price, and therefore there is no market evidence justifying a price increase. There is no automatic mechanism in the public sector budget process to change an output price from year to year. The result is a process known as "fixed nominal baselines". Specific policy decisions of the government are required to change the amount spent on non-indexed outputs. Any such increases must be traded off against other new expenditure priorities, through the fiscal allowances framework and form part of the annual budget negotiations (Treasury, 2001).

However this view of the New Zealand public sector funding model is in some ways overly simplistic. Less than one third of total appropriations are for output expenses. Notably in the social security and welfare functional classification, output expenses are less than 7% of total costs, with the great bulk being benefits. These benefits are funded on a formula driven track with most being adjusted annually for inflation, to allow automatic fiscal stabilisers to work. Elsewhere in the system, health and education spending are automatically adjusted for demographic changes as are increased costs arising from large collective wage agreements.

Indeed the more detailed the analysis of funding models in the New Zealand Public Sector management system, the more variety emerges. It becomes a key task of the strategic financial manager in government to match and reconcile the various operating and funding models as the following examples illustrate:

- The NZ Transport Agency adds value to New Zealand's transportation system through maintaining and developing NZ's state highway network and contributing 60% funding for projects on local roads that are approved in accordance with the National and Regional Land Transport plans. It has secured hypothecated funding for these services from petrol excises and motor vehicle user charges. However transport changes are affecting how these service delivery and funding models match. At a time when cyclists are demanding facilities to meet their growing need there are new demands on our road transport network, while at the same time there is a reducing revenue stream as cars become more fuel efficient and indeed, electric. NZTA's strategic financial managers therefore need to anticipate and plan for a resetting of its funding model or its operating model to ensure sustainability.
- The Department of Conservation is New Zealand's government agency to add value to New Zealand's natural capital by conserving New Zealand's natural and historic heritage. It can be effective in adding value by partnering with business as it has with Meridian Energy to support the Kākāpō Recovery Programme, and with volunteers and community conservation groups working around the country. These activities are vital in bringing DoC's funding model and service aspirations together, and therefore strategic financial managers need to measure and manage those drivers that support the financial operational health and growth potential of these partnerships.
- In New Zealand we have three organisations that provide first responder emergency services: Police, Fire Service and Ambulance. They operate under three different funding models: the Police receive an annual appropriation, the Fire Service is funded through a levy on insurance, while the ambulances are largely funded by charitable donations. A continuing question for the strategic financial manager is how well each of these funding models match the operating models of the emergency response providers and what impact they have on collaboration between them.

There are very important benefits from the current fiscal management approach, or funding models. Not only do Ministers have the power to ensure that fiscal targets are achieved, and to broadly specify what services are to be delivered, but decision-making within baselines and other funding parameters are generally left in the best hands (i.e. at lower levels in the hierarchy close to the affected citizens or customers). Resource allocation decisions within appropriations are devolved to departments. Financial and senior managers must themselves work out the best trade-offs between:

- their funding model (constrained by the fiscal management approach, but with some pressure valves),
- their operating model (challenged by public demand as expressed by Ministers) and
- their risk management model (driven by their risk appetite and desire for resilience to meet stewardship responsibilities).

This requires clear financial structures, also known as silos. An observable impact of the NZ public sector system is a comparatively large number of tightly focused entities both in comparison with the situation prior to the reforms of the late 1980s and to other countries. The empirical research of institutional economists has provided empirical evidence that this is a good thing; that smaller more tightly focused organisations are more effective than large unwieldy structures (Ostrom and Parks, 1973). It makes sense to separate policy and operational functions since specialisation tends to improve the efficiency and effectiveness with which both these functions are carried out. Specialisation is not the same as isolation, although this distinction is not grasped by many critics.

However, the features of a funding model that works well for the delivery of specialised measurable services, are likely to be quite different than a model that works well for delivery of collective impact. For specialised measurable services the assumption that those services can be estimated, costed and funded is likely to hold. Where the hierarchy does not know what works or where to invest, the assumption that performance expectations can be set in advance no longer holds. Intelligent accountability for collective models must therefore be based on something other than performance expectations.

3.4 The importance of both specialist and collective operating models

While the focus of this paper is on collective operating and funding models, it does so recognising that while collective models create value, so too does their opposite, differentiation and specialisation. In fact, specialisation is almost certainly the greater engine of value creation. Therefore a critical institutional challenge is to seek arrangements that create an optimal blend of specialisation and integration within each sector or system (Bardach,1998). We are warned that transaction costs of collaborative activity are seriously resource consuming and should only be considered when the stakes are really worth pursuing (Huxham & Vangen, 2005)

Under many social policies and some emerging human rights rulings, people have rights to support, whether there is a prospect of better outcomes or not. Social policy provides support for many people and groups as a right regardless of whether a cost benefit analysis justifies the support. There are groups where the expectation is for continuing support and no reasonable policy is likely to reduce that expectation. A characteristic of such services is that they come with legislated objectives and criteria for eligibility, rather than significant discretion by service providers to adapt services to local needs. The key challenge for the public sector is to deliver such statutory services efficiently. (Scott et al, 2016). Hierarchical approaches are needed as well as collaborative approaches. The debate between specialist and collective approaches is therefore not an either/or decision, but rather a "best balance of both" call.

There are also learnings that the public sector can take from private sector experience where businesses seek to both maintain 'business as usual" profits, and to effectively respond to increasingly complex demands.

For example John Kotter of Harvard University believes that the most successful (top 1%) of organisations have developed a dual operating model with the hierarchical organisation in place to "run the business" efficiently and well and respond to predictable improvements and an entrepreneurial network of people within the system overtly backed by the executive to be fast, agile and responsive to new challenges (Kotter, 2014).

He suggests that a singular operating model is not built for an environment where change has become the norm. What is required is a second, more agile, network-like structure that operates in concert with the hierarchy to create a "dual operating system" one that allows entities to rise to complex challenges and still make their numbers.

The challenge he describes, and the solution he has observed, represent a private sector equivalent to what is proposed in this paper.

3.5 How different are specialist and collective approaches?

Traditionally, Government structures resolve conflicts through the exercise of authority by a mediating hierarchy. Collectivist approaches are disruptive to this paradigm, in ways they share with the modern 'disruptive' firm.

Power in these collectivist entities is established through access to a critical resource (being the relationship with the citizen, and the benefits from complementarities from and between social service providers' investments). Rewards for participation in a collectivist entity could come from privileged access to the citizen or citizen group, to the web of social service investments, or access to information, or to funding. For participation to be sufficiently incentivised, prospects for success of the entity are critical. (Zingales, 2000)

A key insight is that the collective model, as it assumes value is added from collaboration, is mainly about investing in relationships. Such investment requires a sharing of goals, and a view that there will be value added through collaboration. In turn that should impact the accountability model. Accountability institutions in respect of citizen-centred entities should not be targeted at reducing agency costs, but rather at managing conflict between participants in the entity. In particular accountability mechanisms would be aimed at ensuring there are meaningful consequences for free-riders and holdouts within the collective entity. This is important as the fragmentation of power presents a serious risk for the survival of organizational capital in citizen centred entities. (Gorringe, 1996).

Within such collective impact arrangements, the accountability elements need to prioritize horizontal and downward lines of accountability e.g. more client and community engagement and feedback compared to the vertical accountability prevalent under specialist models. Effectively operating in a collective and collaborative manner requires attention to be paid to these issues to a level not required in a hierarchical system.

Table 1 – Comparing Outcome-based Collaboration and Output-based Specialisation

	Outcome-based Collaboration	**Output-based Specialisation**
Expectations	Shared Goals	Delivery of Services
Operating Model	Value-add through collaboration	Value-add through specialist skill
Information needs	Fast feedback loops from citizens	Fast feedback loops from system
Accountability for	Commitment to shared goals and the ability to achieve them	The quality, quantity and cost of the provision of services
Accountable to	Citizens before hierarchy	Hierarchy before citizens
Accountability direction	Horizontal between collaboration participants	Up through the hierarchy
Accountability against	Free riders and hold-outs	Principal-agent misalignment
Trade-offs favour	Effectiveness	Efficiency
Funding	Collectives / Relationships	Services

Thus, the performance expectations, performance characteristics, information needs and accountabilities are significantly different for specialist and collective operating models. The political, economic, social and technical forces that have created relatively specialised structures make collaboration difficult. Not only is the optimal blending difficult, institutional arrangements handicap efforts toward collaboration.

If the public sector system is to do both specialist services and collaboration well, the system needs two operating and funding models (for specialisation and for collaboration) within the system rather than one. This then becomes the first design principle on which the rest of this paper is based:

Principle 1: The New Zealand public sector management system should develop a separate (dual) centre of gravity for collective operating and funding, rather than seek to extend current models.

3.6 When should a collective model be preferred?

This paper suggests that circumstances in which collective approaches have most to contribute are where hierarchal specialist systems work the least well, i.e. where the system to which interventions are to apply can be described as complex and adaptive, so that outcomes are emergent rather than predictable and controllable.

In such environments, interventions by organisations producing specialised services, operating with vertical hierarchies for performance management and accountability, struggle to achieve desired outcomes. On the other hand, collective models focused on client-centred outcomes and organised through collaboration to provide tailored packages of services based on individual, family and community needs and experiences will do better in these environments.

This suggestion is consistent with a major branch of the transaction cost literature that deals with “measurement”. Measurement includes ex-ante specification and ex-post assessment or performance and is central both to the determination of organisational form and contracting approaches (Alchian and Demsetz 1972, Ouchi 1980, Barzel 1982, Gorringe 1988, North 1991).

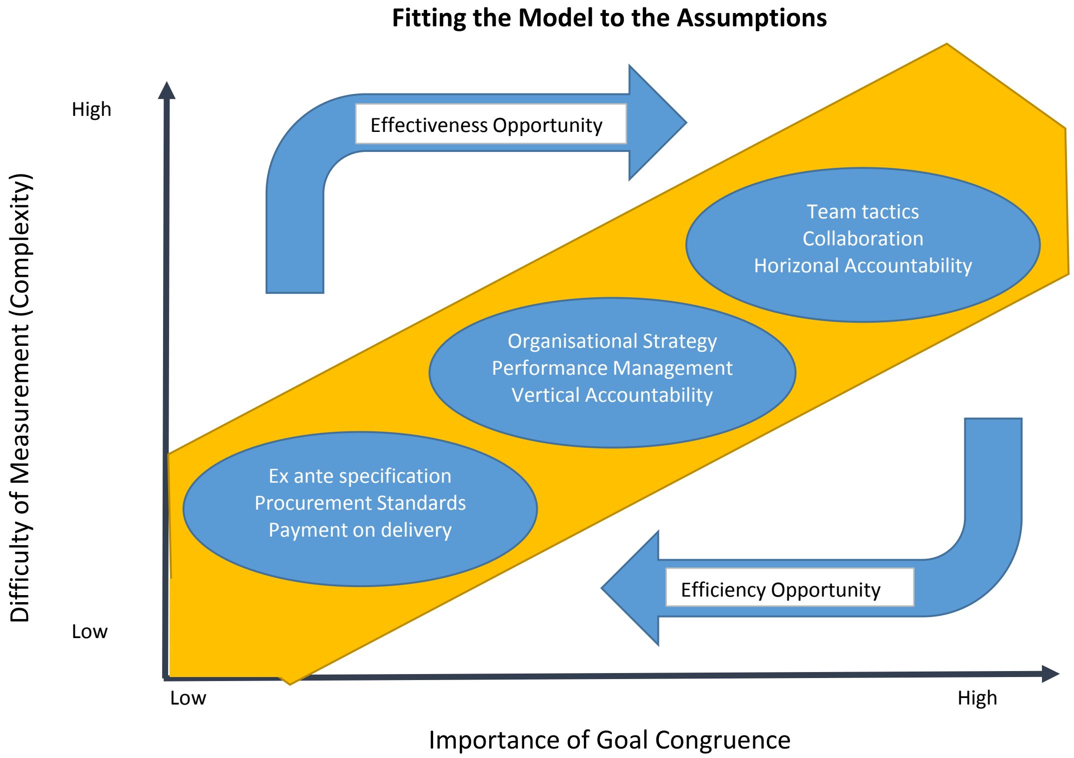
Ouchi (1980) for example differentiates between markets, bureaucracies and clans. He distinguishes two dimensions along which these differ - difficulty of measurement or “performance ambiguity” and perceived convergence of interests or “goal congruence”.

As the difficulty of measurement increases, the importance of institutional means of fostering goal congruence increases. As information and knowledge deficits increase not only do the likely outcomes of actions become less predictable, but also there will be divergent views held about the nature of the problem to be tackled, its cause and solutions. This complexity is not resolved by collecting more information, because it is due to the lack of a joint frame of reference and shared meaning among the various public sector and non-public sector actors, including the citizens impacted. (Eppel and Karacaoglu 2017). Therefore. if complex problems are to be successfully tackled collectively, there is greater need for goal congruence, and hence a greater need for the “clannish” behaviour that a collaborative model supports.

It is also consistent with the literature on collaborative advantage: That research has found that managing to achieve collaborative advantage requires grappling with a number of themes including aims, purpose, membership, trust, power, identity, and leadership. Because such joint working between organisations is inherently difficult and resource consuming, it should not be undertaken unless there is the potential for real value to be added through collaboration advantage (Huxham and Vangen, 2013)

The suggestion therefore is that the operating model needs to be fit for purpose as illustrated in Figure 2.

Figure 2 : Fit for purpose operating and funding models



That suggests there is a "golden path" where the public sector should operate. Where there is clarity and ease of measurement, standardised contracting processes are likely to be most efficient; as measurement becomes more complex then bureaucratic structures are needed; and in the most complex cases, clans or networks should take over. Where the level of complexity is too great for the existing model to handle, there is an effectiveness opportunity in moving to a different "gear". Similarly if the model is expending effort in achieving unnecessary goal congruence, there is an opportunity for efficiency gains.

Collaboration involves high transaction costs, and therefore should be avoided for easily measurable activity where the need for alignment between parties is low. However, where measurement is difficult, as with 'wicked problems', and alignment between various skill disciplines is needed, the evidence from comparative institutional economics research suggests that collaborative activity must be encouraged.

In his seminal work on getting agencies to work together, Eugene Bardach reminds us that "Every effort at collaboration involves a veritable ecosystem of people proposing to one another that they do things differently and better – and of course disagreeing profoundly about what 'better' means and whether or not the other person's better might actually be worse (Bardach 1988). Public sector efficiency demands such activity be limited when input-output-outcome relationships are well understood by the hierarchy.

Principle 2: Collective models should be targeted at complex problems where interventions need to be adaptable at a local level, and outcomes are emergent rather than predictable and controllable.

3.7 Critical success factors of collective operating models

There has been a significant amount of empirical research into what makes a successful collective. This section of the paper traverses some of the main findings from that literature, before seeking a unifying concept that can be pragmatically used in the New Zealand public sector management system.

Eugene Bardach argues that the critical assumption of a collective operating model is that value is added by working together. Only by collaborating can a collective articulate its vision, define its mission, and choose its concrete goals. Compared to specialist public sector organisations, a collective gets its sense of direction in a diffuse, collectivised way. Elected officials and top managers of participating entities are involved of course, but so are middle-management implementing networks, professionals, line staff, citizens and others (Bardach 1998).

The most essential ingredient in successful collective impact activity therefore will be the effort and creativity of the collaborators, officials within the agencies, and other entities involved in the collective. Collaboration is built by a process that is integrative, creative and purposeful (a craft). The success of a collective impact vehicle is a function of the skill and purposiveness of the craftsmen interacting with the quality of the available materials, and their ability to fashion protections against potentially destructive forces such as personnel turnover and the erosion of alliances (Bardach 1998). Good institutional design for a collective model must therefore create an environment supportive of the collaborators

Leadership is critical to shape the role and implementation of collaboration agendas. Absent the assumption that there will always be a formal leader who either influences or transforms members of a hierarchically organised structure, partners in a collective must find a way to legitimize leadership, to influence whole organisations rather than individuals and to 'make things happen' ((Huxham and Vangen 2013). Researchers that have focused on leadership in collaboration have tended to emphasise relational leadership (Murrell, 1997) processes for inspiring, nurturing, supporting and communicating (Crosby and Bryson, 2004) and organisations as leaders (Ryan, 2001).

A collective requires flexibility of thought and action to deal with novel or unanticipated opportunities and problems. These arise because collectives are expressly designed to look at policies through a different lens and have to deal not only with a broader menu of solutions to clients but also the constraints of partners. Trial and error necessarily involves failures that a collective must deal with. Not only that, success may bring its own dangers, as that success can itself become institutionalised. Maintaining the necessary flexibility requires a spirit of teamwork, an absence of narrow operating restrictions and empowered front line staff. Good institutional design for a collective model must therefore limit the controls applied by the centre.

Often roles in collectives are 'agency-professional' such as teachers in schools, clinicians in hospitals. There is risk to society if such work is not performed well, the work cannot be monitored closely, and therefore must be performed responsibly. Successful collaborative activity is undermined without participant understanding of the different world-views and risk appetites of diverse agency-professionals (Cameron 2016). Good institutional design for a collective model must therefore create expectations that understanding and trust will be developed across agency-professional roles and boundaries.

The search for consensus will dominate collective impact steering processes. Complete consensus is always either impossible or very time consuming. Smart practice will limit the search for consensus to what is sufficient for particular purposes. Again, out of consideration for the costliness of elaborate governance procedures, a related smart practice will be to trade in governance to the extent possible for quality-oriented management processes (Zingales, 2001).

Smart operating practices in the collective are therefore a critical success factor for collective models. They are vital in building the necessary understanding and trust. This includes using disagreement to improve dialogue, increasing self-awareness, discovering a common identity, co-location, training of diverse agency-professionals.

In his article in the Harvard Business Review, Smart rules: six ways to get people to solve problems without you, Yves Morieux notes that real cooperation requires making tough trade-offs. His prescription to enable a cooperative environment to be achieved drawing from the most effective collective operating or smart practices that he has observed, recognises these incentives at play (Morieux, 2004).

1. ***Improve understanding of what co-workers do:*** To respond to complexity intelligently, people have to really understand each other's work: the goals and challenges others have to meet, the resources they can draw on, and the constraints under which they operate. People cannot find this kind of information in formal job descriptions; they can learn it only by observing and interacting. A design principle of collaborative models must be that they support the development of understanding and trust across agency-professional roles and boundaries.

2. ***Reinforce the people who are integrators:*** Conflicts are inherent to collective models. The response is not to create some sort of coordinating unit--a middle office that just turns one problem into two: for example between the back and front offices, or a regional office between the corporate centre and customer operations, nor is it to impose a coordinating procedure like computerized job requests. A better design principle is to empower line individuals, or groups to play that integrative role. Those who already interact with multiple stakeholders (customers as well as other functions) can act as integrators, lead co-ordinators, helping teams obtain from others the cooperation needed to deliver more value.

3. ***Expand the amount of power available:*** To increase cooperation whereby staff are more willing to take the risk of moving out of isolation, trusting others, showing initiative, and being transparent about performance, create new power bases, by giving individuals new responsibilities for issues that matter to others and to performance in achieving shared goals. This reinforces the point that a separate centre of gravity or power is needed for collectives.

4. ***Increase the need for reciprocity:*** A good way to spur productive cooperation is to design arrangements where the responsibilities of integrators are expanded beyond activities over which they have direct control. Making their goals richer and more complex will drive them to resolve trade-offs rather than avoid them. But if people are measured only on what they can control, they will shy away from helping with many other problems where their input is needed. This is another point of difference with hierarchical approaches where accountability is designed to match responsibility.

5. ***Make staff in a collective feel the shadow of the future:*** The longer it takes for the consequences of a decision to take effect, the more difficult it is to hold a decision maker accountable. Many who are involved at the launch of a three-year project will no longer be around when it's completed--they will have been moved to another job or location, or promoted. They won't be affected by the consequences of

the actions they take, the trade-offs they make, or how well they cooperate. To paraphrase game-theorist Robert Axelrod, the "shadow" of the future does not reach them (Axelrod, 1984). However people are more likely to feel the shadow of the future if it can be brought closer through faster feedback loops, or through assigning collaborators to downstream work.

6. ***Put the blame on the uncooperative:*** Some activities involve a long time lag between cause and effect (for example, in some research and development efforts) That makes it impossible to set up direct feedback loops that expose people to the consequences of their actions. There are also situations where jobs are so remote that it is difficult to have a direct feedback loop that makes the people who perform them feel interdependent with others. In those cases, leaders have to close the feedback loop themselves by explicitly introducing a penalty for free-riders and holdouts, those people or units that fail to cooperate on solving a problem, even if the problem does not occur in their area, and increase the payoff for all when units cooperate in a beneficial way.

Elinor Ostrom's principles for sustainable governance of common-pool resources are also relevant to a discussion about the critical success factors of collectives. Distilled from decades of studies on dozens of common-pool resources situations, they capture the best practices that have been used sustainably for decades or even centuries, to avoid the famous "tragedy of the commons" without relying on privatization or a "Leviathan" authority.

1. The common-pool resource has clearly-defined boundaries (effective exclusion of external unentitled parties).
2. There is congruence between the resource environment and its governance structure or rules.
3. Decisions are made through collective-choice arrangements that allow most resource appropriators to participate.
4. Rules are enforced through effective monitoring by monitors who are part of or accountable to the appropriators.
5. Violations are punished with graduated sanctions.
6. Conflicts and issues are addressed with low-cost and easy-to-access conflict resolution mechanisms.
7. Higher-level authorities recognize the right of the resource appropriators to self-govern.
8. In the case of larger common-pool resources: rules are organized and enforced through multiple layers of nested enterprises. (Ostrom,1990)

Finally, Huxham and Vangen have identified six perspectives that successful collectives must grapple with if they are to be successful.

- We must have common aims but we cannot agree on them. Sharing power is important, but people behave as if it's all in the purse-strings
- Trust is necessary for successful collaboration, but we are suspicious of each other
- We are partnership-fatigued and tired of being pulled in all directions
- Everything keeps changing
- Leadership is not always in the hands of members
- Leadership activities continually meet with dilemmas and difficulties

There is much commonality in the above findings, despite the differing perspectives of the researchers. A great deal of emphasis is placed on the quality of the shared vision, and the quality of the engagement. Leadership, trust, understanding, legitimacy, commitment and adaptability have been found to be critical. Smart practices to resolve conflict, gain sufficient consensus to act and to make things happen are necessary.

Distilling these findings into a principle to apply when establishing a separate collective model in the public sector, the following is suggested:

Principle 3: Collective operating models should:

- *support the flexibility of thought and action required to deal with novel or unanticipated opportunities and problems,*
- *motivate participants with challenging and achievable goals, and*
- *work to develop understanding and trust across agency-professional roles and boundaries.*

Because collectives require flexibility, and require motivated participants, they need to be self-governing. That requires a reset of the role of the public sector hierarchy for collective models.

There is no single collaborative governance regime that works in all circumstances. Rather, collaborative governance unfolds within a system context that consists of a host of political, legal, socioeconomic, environmental, and other influences. (Ansell & Gash, 2009).

Under the hierarchical model, policy making uses scientific evidence to form a consensus view on the design and implementation programme of policy, and the implementation of policy then becomes a technical matter for bureaucratic control. If failure occurs, that is assumed to be due to incorrect assumptions about attribution, and lack of control, so solutions are to rationalise policies, clarify policy goals and improve control to succeed. The underlying assumption in the model is that the centre can access the necessary information about public problems, preferences and solutions, but for complex issues this is impossible given its limited capacities and uncertainties, and also because the model ignores the (non-steerable) values and interests of implementing bodies and target groups. (Kickert, Klijn & Koopenjan, 1997)

Under the collective model, decision-making is about co-operation between different interdependent parties with different, conflicting rationalities, interests, and strategies. Policy processes are not the implementation of ex ante formulated goals, but an interaction process in which actors exchange information about problems, preferences and means, and trade-off goals and resources. Success is the realisation of collective action to establish a common purpose and avert threats, and failure is attributed to the lack of incentives to co-operate and the existence of blocks to collective action.

Management conventionally consists of setting goals (planning) structuring the organisation (organising) and getting the job done (leading). Collective management on the other hand is an inter-organisational activity, aimed at facilitating interaction, creating and changing network arrangements for better co-ordination. (Kickert, Klijn & Koopenjan, 1997)

Collectives are operating in a context where there are no shared opinion as to what interventions are appropriate and when they should be made, and there is no clear hierarchy in which a manager with a clear authority line sets decision procedures on which a manager can rely. Therefore, what becomes most critical is the environment where interaction processes are facilitated and mediation between different actors creates sufficient consensus for action.

Rather than steering collectives toward a pre-determined objective, the public sector hierarchy therefore needs to shift its attention to the quality of the interaction processes within the collective, and the mana of the collective in forming and acting on its consensus view.

That suggest a further principle is needed for the collective model to flourish.

Principle 4: The responsibility of the public sector hierarchy is not to steer collective entities, but to create the environment in which the smart practices necessary for self-governing collaboration can flourish.

3.8 Critical success factors for collective funding and accountability models

The design of successful collective approaches in the public sector requires determination not only the model whereby value is created, but it must also determine a model for determining how the costs are shared and funded. Visions are relatively easy to share, costs are harder.

The Productivity Commission and other commentators have observed that top-end coordination alone does not lead to funded collective impact vehicles on the ground for vulnerable groups who have complex interrelated needs and do not access services for whatever reasons (Seddon, 2014). Also, while in principle managers can be given deep delegations, these managers remain subject to funding controls and interventions reflect the needs of their specialist/professional hierarchy over the needs of the citizens.

Despite that, some collaborative activity does currently occur within the public sector. Most commonly this is where self-motivated collaborators have access to resources from the sponsoring organisations, and hence the collective can operate without a budget. Such arrangements often work for short term periods, or where the collective has strong leadership. However, the transaction costs are significant. It is observable that these arrangements have little resilient structure.

Funding is more likely to be important to the failure of a collaborative effort than its success. Funding and accountability practices that have been suggested to reduce the likelihood of failure include:

- Maintaining intelligent accountability and making it serve the broader aims of high-quality thought and action. In such a regime reporting spurs quality analysis and feedback. If no feedback results, then it should be eliminated; if it spurs inappropriate panic or complacency, it should be tightened. Smart accountability practices to expand collaborative capacity are peer accountability, a clearer focus on results, and greater involvement of consumers/clients/customers in the process. However, such accountability spurns standardised and therefore ‘efficient’ reporting practices, in favour of costly ‘intelligent conversations’.
- Exploiting financial exchanges among partner agencies as an opportunity to induce high quality performance. Financial incentives to collaborators can be manipulated through the design of payment schemes and the threat of withholding (or sometimes the promise of offering) resources. However, without high quality measures of quality of performance, such incentivised

schemes are subject to dumping (of problem cases) and creaming (of easy cases). The ability to obtain benefits from competition is likely to be impeded by incompatibility or bureaucratic or political protection of funding preventing the necessary ‘creative destruction’ of poor collaborators.

- Eliminating narrow budget restrictions and thereby empowering front line staff. More flexible budget rules would support the flexibility of action required to deal with novel or unanticipated opportunities and problems. Success may be dependent on the purchase of a capital rather than a budgeted item, a procurement outside an all-of-government contract for example. However, the spread of such flexibilities reduces the rigour and power of the budget process (Bardach, 1998).

The caveats expressed about each of those ideas suggest that if such funding and accountability practices were to become the generalised norm, they would introduce overly burdensome, wasteful and ineffective resource allocation processes for specialist, hierarchically managed services. Collective funding and accountability would be improved, but funding and accountability for specialist activity against expectations would be harmed. Again, the logical conclusion is that new and separate funding and accountability practices are needed for collectives.

The critical difference between funding and accountability arrangements would appear to be that for specialised work the service provision is funded, whereas for collective work a collective is funded that will then determine the service provision. Under the specialist model a principal–agent accountability (or vertical accountability) is required to provide assurance that the desired quality and quantity of services is delivered for the resources allocated, and there is less need for horizontal accountability between service providers.

A critical success factor for a collective funding and accountability model is to reverse these priorities. The most important aspect is the horizontal accountabilities between the participants in the collective as they decide on the tailored, bespoke services provided to citizens and respond to fast feedback loops on the impact those services are having. The principal-agent (or vertical) accountability between the public sector investor and the collective should encourage and not distract from those horizontal accountabilities.

What matters for horizontal accountability is the level of commitment to shared desired outcomes and the level of reciprocal respect or mana between the funder and the collective. That suggests that funding and vertical accountability for collectives need to focus on those matters. The funding and accountability of a collective should not be a contract for services.

That does not mean that vertical accountability is less sharp or does not have a role. In a democracy, elected representatives must retain the power of the purse and be accountable for their use of it.

Recognising this, the public sector system has attempted a number of times to move its focus from accountability for outputs to accountability for outcomes, (e.g. Kibblewhite & Ussher, 2002). However, gaining traction around outcomes at either the organisation level or system-wide has generally not been successful. The difficulty of attribution between the efforts of public servants and desired national outcomes and the long timeframes over which changes in outcomes are likely to become apparent have been challenges for accountability for outcomes. It tends to be when outcomes can be defined in practical and measurable terms and aligned with service delivery (e.g. in such areas as road safety funding and funding some employment services) that some success has been achieved. But that is not the case when seeking to improve outcomes for vulnerable people with complex needs.

If outputs are not known when funding is to be decided, and outcomes are too uncertain to be used, how can the necessary accountability relationship be constructed to enable a collective approach to be applied when desired within a representative democracy?

It is suggested that the key to answering this question lies in considering the purpose of an investment in a collective. The objective is to invest in a collective that, by its collaborative advantage, is likely to achieve better outcomes in complex situations than would otherwise be possible. Funding and accountability should favour successful collectives. A means of establishing the collaborative advantage of a collective is the level of reciprocal respect with which it is held.

“Mana” seems uniquely well suited as an idea to encapsulate the concept by which the success or otherwise of collectives can be assessed. The Maori dictionary defines mana as “prestige, authority, control, power, influence, status, spiritual power, charisma”. It goes on to state “Mana gives a person the authority to lead, organise and regulate communal expeditions and activities, to make decisions regarding social and political matters. A person or tribe's mana can increase from successful ventures or decrease through the lack of success. The tribe give mana to their chief and empower him/her and in turn the mana of an ariki or rangatira spreads to his/her people and their land, water and resources.”

Therefore, this paper proposes that the focus of that accountability must move from measuring the services delivered or outcomes produced to measuring the mana of the collective.

The Wilder Collaboration Factors Index sets out a framework for undertaking such measurement in a useful way for funding decisions and accountability processes (Mattessich and Johnson, 2018). The following nine criteria, drawn from that index could be used to score collective investment spending proposals, and to score the value of maintaining the investment of public money in the relationship with the collective:

1. ***The quality of the shared vision***: Whether the collective’s vision is in alignment with Government objectives expressed in the collective investment strategy and participants in the collective impact demonstrate commitment to collaborative approaches to pursue that vision.

2. ***The quality of the engagement*** with the Government’s collective investment manager in negotiating priorities in the light of local knowledge where collective impact approaches are used.

3. ***Capacity***: Whether the collective has or can develop sufficient resources, staff, materials and time, including “convening power”, to do what it wants to accomplish.

4. ***Leadership***: Whether the people in leadership positions in the collective, including the Treasurer in that collective, have good skills for working with other people and organisations.

5. ***Legitimacy***: Whether the collective is seen as a legitimate leader in the community; that the participants collaborating are the “right” ones to make it work.

6. ***Commitment***: Whether participants in the collective are investing the right amount of time in collaborative efforts for success.

7. ***Trust***: Whether participants in the collective trust one another, and have respect for others involved in the collaboration.

8. ***Adaptability***: Whether the collective will adapt to changing conditions, and can survive, even if it has to make changes to its plans or institutional arrangements to reach its goals.

9. ***Appropriate pace of development***: Whether the collective is trying to take on the right amount of work at the right pace.

These investment decision criteria could provide the basis for a new funding and accountability model based on mana. They would enable the Government to reframe relationships away from the micro-managed output contracting practices of the present, or an outcomes approach dependent on serendipity, to an alternative concept in which the government is deciding whether to increase, hold or reduce its exposure to a collective on the basis of a rigorous assessment of the collective's mana as represented by the above criteria.

The criteria suggested enable a move away from having to try to specify performance requirements in detail in advance, and holding the funded entity accountable for service delivery performance in arrears. They do not require an accountability for outcomes which has the potential to generate either underserved credit or an industry of excuses as to why the outcome has not been achieved.

Because of the uncertainty in collective investment decisions over the costs and benefits at the investment stage, this alternative funding and accountability model would likely be most more effective and efficient where there is a complex unmet need and where there is a possible collective that will address this need better than the status quo. In other words, this funding and accountability model is best aligned with the design principles expressed earlier.

The existence of such a dual model using the criteria above could also be expected to encourage innovation at the front line, improving the supply chain management for the Government, so that the collective investment manager promotes the development of collectives' capability needed to address the complexity of responses to long tails of disadvantage.

Principle 5: The mana of the collective should be used both as a basis for providing a collective funding model for collective entities, and a basis for accountability for the results of that funding.

3.9 Summary

The New Zealand public sector's operating and funding models support a hierarchical structure, where accountability systems act to ensure the government agencies' activities are aligned with Ministers' democratically mandated expectations. The underlying assumptions are that a system where Ministers have the power to ensure that fiscal targets are achieved, and to specify what services are to be delivered, with decision-making operating within appropriations generally at lower levels in the hierarchy close to the affected citizens or customers is most likely to increase public value.

However, such a model is fundamentally inimical to a flat structure, where success is the result of collaboration, and accountability is targeted at reducing the incidence of free-loaders and hold-outs. Within such a model, exhortations from those at the top of the hierarchy to collaborate more are unlikely to achieve sustainable success.

If the public sector is to improve the way it delivers value in complex cases with radical uncertainty, then it faces a challenge to develop a system that allows it to operate under two different gears: efficient and specialist where needed on the one hand, and collaborative and across-interests when important on the other. Currently the findings of the Productivity Commission, the WEAG and the Whānau Ora Review Panel show the public sector system's clutch mechanism is not good There is graunching between the gears, and when the system does get into collaborative mode, it often tends to slip gears back to the specialist mode.

Rather than the chaos and confusion that results from a single system that has competing definitions of performance, and different requirements of management and accountability, a more clear separation of the collective impact operating and funding models and the service delivery operating and funding models could deliver an overall system that can operate well in both gears.

Studies of successful collectives have put a great deal of emphasis on the quality of the shared vision, and the quality of the engagement within the collective. Leadership, trust, understanding, legitimacy, commitment and adaptability have been found to be critical. Smart practices to resolve conflict, gain sufficient consensus to act and to make things happen are necessary.

In the New Zealand context, this paper suggests that the concept of 'mana' is a useful notion that captures most if not all of these ideas. A collective needs respect if it is to be successful, and mana speaks to respect that is earned and is reciprocal. Further that provides a basis that can be used for funding and accountability purposes.

Investment decision criteria for measuring mana could provide the basis for a new funding and accountability model. They would enable the Government to reframe relationships away from the micro-managed output contracting practices of the present or outcomes approach that have disappointed when they have been attempted in complex situations.

It may also be possible to reframe the government's relationship with social entrepreneurs, as attention is diverted from accountability processes that are not fit for purpose, to what matters; growing the mana of those that are most successful in dealing with the country's most complex challenges.

4 Applying the insights: Developing Collective Models in the NZ Public Sector

4.1 Design Principles

From the above discussion, the following five design principles have been proposed for operating and funding model reform to develop collective models in New Zealand:

1. The New Zealand public sector management system should develop a separate (dual) centre of gravity for the collective model, rather than seek to extend current models.
2. Collective models should target complex issues. Funding and support should therefore be limited.

3. Collective operating arrangements should support the flexibility of thought and action required to deal with novel or unanticipated opportunities and problems, motivate participants with challenging and achievable goals, and work to develop understanding and trust across agency-professional roles and boundaries.
4. The responsibility of the public sector hierarchy should not be to steer these entities, but to create the environment in which the smart practices necessary for self-governing collaboration can flourish.
5. The mana of the collective provides a basis both for decision-making over investment, and a basis for accountability for the results of that investment in collective entities.

This chapter outlines how those principles could be applied through a public sector management reform process.

4.2 Separating and Integrating the dual specialist and collective models

Conceptually, the dual operating model is the integration of a collective network with a hierarchy. The duality that is outside the hierarchy cannot be another hierarchy, or it will fail. The territory of a collective network is defined by the scope of the people being served and their needs and aspirations. Participants in the collective may be within or outside the hierarchical public sector, as with NGO community based providers and iwi.

If New Zealand's public sector management system is to have both specialist and collective models without descending into confusion and chaos, then the models need to be both separated and linked. This essential linkage would be provided by a new collective investment management role, interacting with the treasurer of the collective, and with the rest of the management system. The collective investment manager provides investment analysis, investment advice and investment management services to the hierarchy (in particular, decision-making Ministers or another body) as well as maintaining the government's relationship with collective entities. The role of the collective investment manager is critical in each of the three stages in the process: commissioning, relationship management and exit.

This paper works under the premise that collective investment management should be a centrally located presence to integrate and co-ordinate collective investments. Only then can there be assurance that the public sector will enable the mandate, skills and resources:

- to take an overview of the policy landscape looking for pools of unrealised benefits, as well as the capacity of collectivist communities.
- to develop cross-agency proposals,
- to assess the progress of collective investment as a whole,
- to promote and engage in implementation – following decisions by ministers - through partnering and relationship management; and
- to lead in pursuing mandates that cut across boundaries in complex ways involving innovations in public private partnerships including social enterprises.

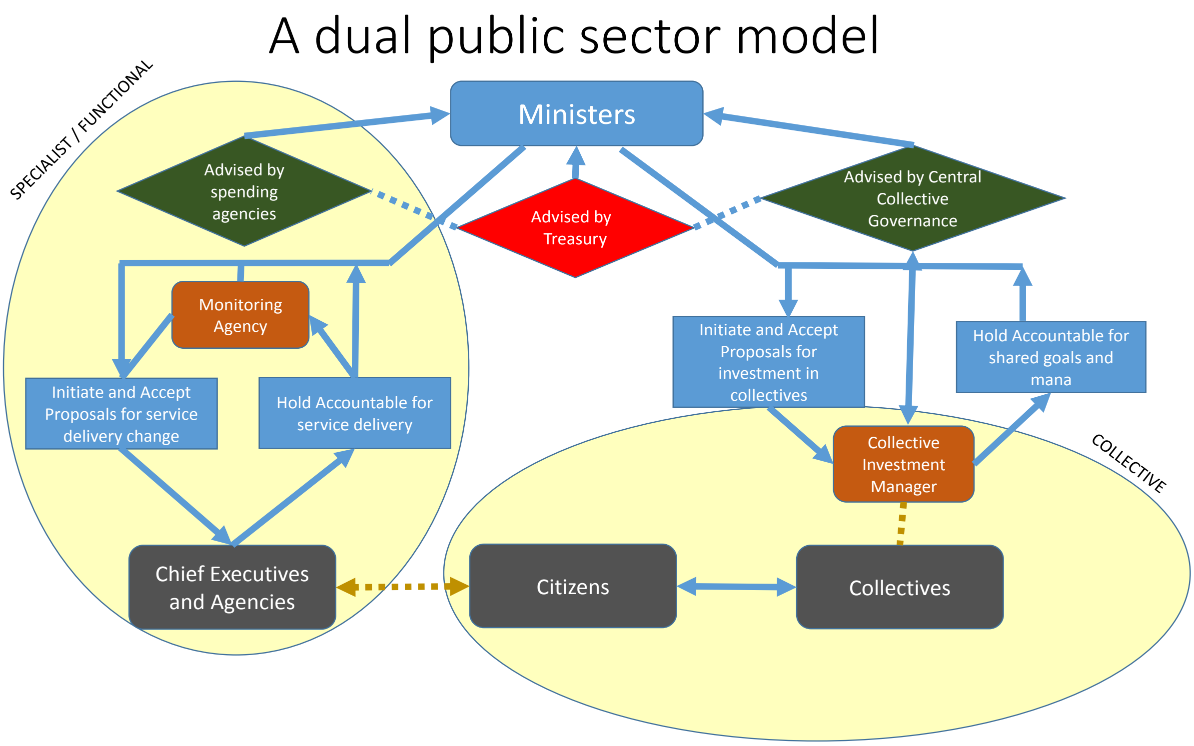
Such work is unlikely to be a priority for specialist ministries, whose incentives are to develop proposals within their own domains and sectors, and to look to their own capabilities to resolve problems. Therefore a centrally located presence is required.

A critical part of the analysis required prior to making collective investments is the accompanying fiscal analysis. If investment is about spending money now to save money later, the collective investment process must provide assurance that a return-on-investment test is made of each proposal. The fiscal calculation must be on the table when Ministers make their decisions about collective investments. Treasury would therefore retain a crucial second-opinion role in providing advice on collective investment decision-making.

Collective investment, mainly because it should be targeted at complex problems of hard-to-reach populations, is a riskier proposition than the provision of specialist services in accordance with well-defined criteria. The challenges and risks should not be ignored. Rather they must be managed through commissioning investments well, stewarding those investments well, and disinvesting well, Performance must be assessed on the quality of relationships in the portfolio as a whole, as there will be individual relationship failures.

Such a possible dual model is illustrated in Figure 2 below.

Figure 2 – A dual specialist and collective model for the NZ public sector



4.3 Proposed Structural elements of a collective model

There are several elements to be considered in proposing a collective model for the public sector:

a. Ministers as the ultimate decision-making governance group.
b. Central Agencies and particularly the Treasury’s role providing institutional design, and assessing the overall investment strategy as an advisor to Ministers.

c. The collective investment manager managing the relationship with each collective.
d. The collective as the entity responsible for delivering the desired outcomes.

4.3.1 Ministers

The constitutional role of Ministers is respected under the proposed model. Ministers are answerable to Parliament for the use of public money, and their authority matches this accountability when they are the ones that authorise the collective investment strategy, and decisions to invest in the relationships with individual collectives. The proposal is also conscious of the warning from Dr Cullen that new approaches should not attempt to take politics out of the equation, nor that Cabinets will be satisfied with just input at the strategic level (Cullen, 2017).

The novelty however is that Ministers would be answerable for their assessment of the mana (including the commitment to shared goals) of the collective that justifies the spending of public money, and not for the delivery of services or their cost. Under the model, the services delivered and their costs are matters for the collective itself. They will undoubtedly impact the assessment of the entity's mana (see section 3.8 above), but that is a stage removed from providing detailed accountability for the services themselves.

4.3.2 Central Agencies, including the Treasury

The proposal envisages three new roles for central agencies – supporting the development of the collective investment strategy, second supporting the Ministerial collective investment decision making process, and third analysing the results of the Government's collective investment, so as to improve those first two processes.

The roles of the Department of Prime Minister & Cabinet, State Services Commission and the Treasury are not dissimilar with the establishment of collective models. However, successful implementation of the dual model approach would, in particular, impact on Treasury's core responsibilities to advise on fiscal policy, and give advice on the merits of proposals from anywhere to spend public money.

In many ways, the Treasury is a natural player to look across the collective investment in social wellbeing landscape – both collective investment and specialised functionally-based expenditure – and identifying the spill-overs both negative and positive. It would need to position itself, informed by its relationship with the collective investment manager, to provide advice on the totality of funding that should be directed into collective models as compared to hierarchical models. This slots into Treasury's main role of oversight of the totality of fiscal policy on a long term horizon and provides an opportunity to enhance its capability to do fiscal forecasting and scenarios off a base of micro-modelling instead of macro trends.

Comprehensive analysis of the Integrated Data Infrastructure should provide a lot more insight into the kinds of priorities that will over time yield great fiscal outcomes and better value for money. Treasury can deepen its analysis of fiscal trends in this way and provide richer advice to Ministers on the drivers of fiscal change and strategic options to bend negative trends in the interests of future wellbeing.

At a micro-level, Treasury's core business includes the appraisal of public investment proposals of any kind to provide assurance about the reliability of the supporting analysis and placing them in the wider context of the fiscal and social strategy. To do this to a high standard, Treasury not only requires an effective relationship with the collective investment manager, but also it needs to be capable of operating on the frontier of collective investment analysis, so that it can provide sound and relevant advice in assessing the value of collective investment proposals and their financial implications.

As most proposals will meld fiscal analysis with non-monetary and qualitative indicators of relevant social outcomes, the collective investment manager can expect the Treasury to discuss these broader implications and be prepared to provide its Minister with opinions, where it has the knowledge to be able to do so competently.

4.3.3 The Collective Investment Manager

As noted above, this paper works under the premise that collective investment management would need to be a new single, centrally located presence. That will enable the public sector to consider the overall policy delivery landscape and the capacity of alternative collectivist entities in a neutral way in formulating strategy. Also, a single central entity would better be able to develop cross-agency proposals, to partner and manage relationships in a way not possible by specialist ministries, whose incentives are to develop proposals within their own domains and sectors. A single collective investment manager would also be able to take the lead in pursuing mandates that cut across boundaries in complex ways involving innovations in public private partnerships including social enterprises.

This proposed investment manager would, it is envisaged, have a number of roles:

- Developing and maintaining the collective investment strategy.
- Inviting and encouraging collective investment proposals in accordance with that strategy.
- Working with the Treasury in managing the separate budget track for collective investments through the whole-of-government budget process.
- Administration and use of collective investment appropriations.
- Maintaining the government's relationship with the collective entity.
- Troubleshooting issues between the collective entity and other arms of government.
- Reporting on the results achieved by collective investment portfolio in pursuit of shared goals, and the status of the portfolio of collective investments.
- Managing, as necessary, the withdrawal of support from collective entities.

These roles are challenging. The collective investment manager must be part hedge fund manager, part social entrepreneur, confidant and totally public servant. Investing in collective entities is primarily about investing in relationships. Kania and Kramer note that success:

> "requires a fundamental change in how funders see their role, from funding organisations, to leading a long-term process of social change. It is no longer enough to fund an innovative solution created by a single non-profit or to build that organisation's capacity. Instead funders must create and sustain the collective processes, measurement reporting systems, and community leadership that enable cross-sector coalitions to arise and thrive…..They must be willing to let grantees steer the work and have the patience to stay with an initiative for years, recognising that social change can come from the gradual improvement of

an entire system over time, not just from a single breakthrough by an individual organisation.” (Kania and Kramer, 2011)

4.3.4 The collective entity

It is the collective entity that brings collaborators together to define the problem and create a shared vision to tackle it, that establishes a shared measurement basis to track progress and allow for continuous improvement, that fosters and co-ordinates collective efforts to maximise desired impact, and which builds trust and relationships among all participants.

This paper proposes the default position that collectives are not controlled by the Crown. This is because:

- To be successful, the collective primarily needs to be citizen focused. If it is controlled by the state, a significant amount of its attention will be focused on the power of the state to direct its activities.
- The collective is tackling complex, ill-defined problems that have conditions that change midstream. Consequently, the necessary processes of accountability designed to resolve principal-agent problems will collide with the requirements of the co-creative process needed to obtain the commitment of participants within the collective impact vehicle.
- A lesson from experiences with collectives is that although structures and processes matter, cultures matter more. State control tends to pay attention to the more technocratic, or mechanistic, approaches to collaboration, rather than deliberately focusing work on relationships and trust-building – and therefore likely requiring quite different population–centric cultures rather than a state culture.
- Freedom from state control avoids risks of inflexibility associated with state directives, preferences for old solutions, risk-aversion and the need to overcome partnering challenges the state faces.

If the collective is controlled by the Crown, then separate measures will need to be devised to address those risks.

A critical position in any collective entity will be the “treasurer”. The treasurer of the collective would work with the government’s collective investment manager. However, as a member of the collective, the treasurer is primarily accountable to other members of the collective for ensuring the provision of funding and probity. The treasurer is not held accountable for the collective impact entity’s inputs, outputs or outcomes, which is the responsibility of the collective to manage. The treasurer is responsible for meeting the information demands of the investor about the mana of the collective, so that the investor’s role can be performed, including the provision of information for forecasting, cash management and fiscal reporting purposes.

Crucially, the treasurer is empowered to commit funding pre-agreed with the collective investment manager without further approval from back up the hierarchy. This will be the fulcrum on which the collective operating and funding model critically depends. The reciprocal responsibility is for transparency between the treasurer manager as the agent of the collective as investee and the investment manager as the agent of the government (Minister) as investor.

4.4 Proposed decision processes in a Collective Model

In 2012, Lewis, Quigley and Guthrie noted that the current public management system was based in part on a range of important new insights developed by academic economists over the preceding 15 years. They recognised that the continuing relevance of most of those ideas has not been overturned, but they have been supplemented with a theoretical literature that argues that contractual incompleteness affects the boundaries of the firm through allocations of residual decision and control rights. When it is difficult to specify service performance in advance, the arrangement of these boundaries is critical (Lewis, Quigley and Guthrie, 2012).

This paper attempts to rise to the challenge of using that literature, in suggesting a model for community ownership of complex problems supported by government funding. The critical issue is in the allocation of decision rights to the party who has the potential to add the most value to the citizen relationship.

The final section of this paper concludes with some thoughts on the key public sector decisions in a collective model: the initial investment decision, ongoing management relationship decisions and exit decisions.

4.4.1 Collective investment decision-making

All successful investment management requires an investment strategy. A collective investment strategy will set out the overall objectives for collective investment and therefore the priority areas for investment, the parameters and constraints they must work within, and how developing trends are affecting the patterns of activity. A collective investment strategy would be a component of the general fiscal strategy advice provided with the annual budget cycle, and should reflect the priorities of the government.

It is logical therefore that such a collective investment strategy should be prepared collaboratively by the Treasury and the collective investment management team in concert with the social ministries, for approval by Ministers.

It is envisaged that the strategy would recognise that the circumstances in which collective impact approaches have most to contribute are where hierarchal systems work the least well. That is, where the system to which interventions are to apply can be described as complex and adaptive, so that outcomes are emergent rather than predictable and controllable.

The strategy would also recognise that commissioning for collective impact in the social sector is not a straightforward matter. It requires an integrated way of thinking about what can be done and how it is to be done, together with building missing capabilities and trustworthy relationships – sometimes with multiple parties. It must be explicit about the government's view of the mana of socially entrepreneurial collectives.

One way to conceptualise this is to envisage a collective investment market with the Government's (and other Philanthropists') Demand Curve and the Social Entrepreneurs' Supply Curve. A challenge is to make that "market" open, active and orderly.

This market does not have homogeneous widgets and transparent price signals. Rather the Government's demand curve will need to be expressed by its Collective Investment Strategy. This must inform the market of the extent of the Government's ambition to share goals with entities using collective models and the range of resources it is prepared to commit to that ambition. The market will receive confirmation (or otherwise) of the government demand curve as it sees the Government take actions in accordance with that strategy.

Individual investment decisions involve making a decision today to commit resources with the expectation that results in the future from that expenditure will be larger than that expenditure, either in terms of extra benefits or reduced costs. There are long standing methods for doing this for physical infrastructure using 'hurdle rates' to prioritise proposals on the basis of their expected returns on investment. The methods of investment appraisal allow for costs and benefits that are not priced in the markets but estimated in money terms e.g. Quality of Life Years, Value of a statistical life.

But traditionally, for social policy decisions, the cost–benefit assessment has been more intuitive and ad hoc than formal. The 'assets' that social policy protects and creates are intangible, or at least hard to observe and measure, as are many of the benefits, while the fiscal costs and social deficits it seeks to avoid have not generally been seen in an investment framework.

However, this is changing. Treasury's CBAx provides a spreadsheet model that contains a database of values to help agencies monetise impacts and do cost benefit analysis taking a long-term and broad view of societal impacts, costs and benefits. Other rigorous and pragmatic cost-benefit analyses (in the form of social impact analyses) are available now (Fujiwara, 2014). And in recent years, actuarial methods have been introduced to augment decision making about priorities. Work and Income has used these to guide decisions on allocating effort to put people back to work, partly inspired by methods used in ACC. Decisions on determining where a collective spend should be aimed can be aided by adapting these methods in the pursuit of both better outcomes and better fiscal outcomes.

Collective investment inherently calls for innovation and experimentation and some risk, which to date the mainstream system struggles with from ministers to the lowliest public servant. Too much conservatism about the risks in collective investment is a significant risk in itself, because collective investment holds promise to address long tails of disadvantage better than the status quo.

Decisions over individual collective investments can be guided by the strategy, and the criteria by which the mana of the collective is assessed, assisted by the use of actuarial valuations and by cost/benefit analysis. With the investment strategy, the mana assessments, and the social cost benefit analysis in the background, the collective investment manager is positioned to develop proposals with collectives on the shared goals over a medium term period for the population groups targeted, on which the Treasury can provide advice, for prioritisation and approval by Ministers.

4.4.2 A separate Budget track

The model envisages a separate budget track, or envelope, for collective investment decisions. In 2017, a separate Budget Track was put in place to support proposals that display very high standards of evidence and analytics but might otherwise be crowded out of our current funding models by base line pressures. A key feature of

Track One was that it was uncapped – if the evidence justified the proposal, then funding should be found. There are lessons that can be learned from that process.

The review of Track One found that submitters (even losers) considered that it was valuable because it created space for high quality initiatives so they weren't crowded out by cost pressures, provided an opportunity to be innovative and allowed 'best practice' and different thinking. From the Treasury perspective more evidence-based thinking was evident from better quality bids.

However, while more of a population focus came through in the evidence, the proposals still mainly came from the functional or specialist perspective. Indeed there were some challenges and contradictions within the framing of this funding model as we appeared both to be looking for tried and tested interventions supported by evidence as well as innovation/new ideas. The track was labelled as a social investment mechanism but there was uncertainty as to what this meant in practice: convincing data/evidence, a population focus, a cross-agency effort, a fiscal return, all or some of the above?

It would be possible to take the lessons learned from this innovation into a separate funding approach for collective entities. Critical design elements of this track that differentiate it from the track for funding of service functions would be:

- It is the collective that is funded, not the services that it provides. The critical point that the funding and the accountability and the trust should be with the provider rather than the provision of specified services.
- Funding variations should match variations in the mana of the collective. This will enable the creative destruction and development that will be a necessary part of the social entrepreneurial market.

For both specialist models and collective models, cost, benefit and risk assessments continue to underpin funding considerations. However, with collectives the benefit is more likely to be expressed in terms of X impact over Y population by Z time, while risk assessments are directly connected to the mana of the collective. For specialist models the benefits are more likely to be expressed in terms of quality and quantity of output, with the risk assessments related to the factors of production.

Within such critical overriding criteria a wide variety of forms of funding model would be possible, as has been observed currently exist with the way service functions are funded.

4.4.3 The form of appropriations

Collective investments in wellbeing by the state will require appropriation. The form of the investment could take a number of different forms:

- Seed capital to provide for the establishment of a collective entity and development of a funding plan.
- Funding agreements with a private provider.
- Investment in the capital of a collective impact vehicle without full control over it, for example joint funding with a charity.
- Provision of operational support (e.g. data insights expertise) as per the funding plan.

- A social impact bond or other kinds of public private partnership and social enterprise joint ventures.
- Payment to another ministry or state body to provide services under contract to the collective vehicle.

To provide the Crown with the residual control rights to do all these things, it is likely that under the current system they would best be served by a multi-category appropriation. To provide and to obtain the desired commitment (i.e. for extended periods) it is likely that they would be best served by a multi-year appropriation. That would suggest the default appropriation for collective investment in non-Crown owned collectives should be a MCA MYA. The Public Finance Act is therefore currently sufficiently flexible in the current form to allow this model to be implemented.

However, that is probably not the best approach. The collective model could usefully be legitimised by creating a separate appropriation type for collective impact investments, with an amended Public Finance Act requiring the Estimates to contain supporting information about the mana of the collective (including the shared goals being pursued) in which the investment is being made.

Such a separate type of appropriation would help differentiate the separate nature of the performance expectations, and reinforce the distinct accountabilities that apply in this model

4.4.4 Steward of collective investment in social wellbeing

The central investment management function is proposed as the steward of the collective investment system. It needs to monitor both emerging demand (through IDI and other sources) and emerging supply of collectives seeking to improve the wellbeing of targeted population groups. This requires ongoing information collection of overall collective investment performance and stewardship action when the system under-performs.

A deliberate and systematic approach to continuous improvement and a learning system would be the hallmark of successful collective investment. To promote the effectiveness and sustainability of the collectives in which the government has invested, the investment manager may be called on to encourage and facilitate innovation, assist with shared measurement practices, ensure that data, evidence and research are collected, shared and used in ways that enhance the collective's' performance, identify and assess examples of effective practice/ intervention and promote these across the system to encourage communities of practice, enable user feedback to drive system/practice improvement, establish, service and receive advice from collective investment advisory bodies, and set codes of practice/practice standards.

A common issue with collectives is the maintenance of the support of participants. This can particularly be the case when participants have a role both in the collective and in the hierarchical specialist model. The collective investment manager may have a role in holding such participants to account for their commitment. That implies the collective investment manager needs to have some capability to hold people / government organisations accountable based on principles (such as how agencies collaborate, share information, communicate or develop trusted relationships).

If the collective is showing signs of dysfunction the government is responsible and accountable for action, including, in the last resort, withdrawing government support. If the recipient is a success, the government may through its subsequent investment decisions encourage innovation and consolidation aimed at promoting the development and capability of the 'supply chain' for social services, perhaps through investing in upscaling successful collectives.

4.4.5 Managing Changes in the shared vision

The government will only invest when its vision is shared by the collective. However, the strategy, collective vision and shared agenda is subject to constant change and it is a role of the collective investment manager to collaborate on the development of the collective's approach, vision, outcomes and objectives to ensure they remain aligned with the overall Government goals.

Often collectives can be victims of their own success. As circumstances change, sustainable collectives also need to adapt to circumstances. The investment manager will drive such change, for example by:

- Encouraging and facilitating collaboration between stakeholders, including mergers and acquisitions
- Providing support, including funding support, for local 'Backbone organisations' established to support local collaborative efforts
- Enabling the mobilisation of resources and funding, including across the private and philanthropic sectors.

If however the collective appears to the investment manager to be deviating from the shared objective, then this needs to be addressed in the context of the relationship the collective has with the Crown.

4.4.6 Reporting on the results of Collective Investment

To demonstrate accountability against the collective investment strategy, and to inform future strategies, a reporting process is required. An annual report on the status of the portfolio of the Crown's collective investment initiatives is required. The collective investment managers would therefore need to provide, at an appropriate level of aggregation:

- The Identified target population segments.
- Objectives and expected timeframes for these groups.
- The investments in collective relationships to support these objectives
- The current mana of these collectives and how that has evolved
- Progress that is being made toward objectives set by the collective

This is a reporting requirement on the collective investment manager for the performance of the portfolio, not the individual collectives. While the investment manager will clearly need information from the collectives to prepare the report, that information should naturally come from the relationship that is established, rather than being a compliance cost that is imposed on the relationship.

In place of collecting standardised accountability requirements reporting on the services provided by the collective, the collective investment manager would rather assess the mana of the collective, reporting their assessments of such matters as:

- Developments in the commitment of participants to the shared vision that is the basis for the relationship and whether the collective's vision stays in alignment with government objectives
- The quality of the engagement the collective has with the government's collective investment manager in sharing local knowledge gained where collective impact approaches are used.
- Whether the collective is developing and maintaining sufficient staff, funds, materials and time, including "convening power", to do what it wants to accomplish.
- Whether the leadership of the collective, including the Treasurer, are demonstrating good skills for working with other people and organisations.
- Whether the collective is continuing to be regarded as a legitimate leader in the community and that the participants collaborating are the "right" ones to make it work.
- Whether participants in the collective are free-riding or holding out from investing as necessary for successful collaborative efforts.
- Whether participants in the collective trust one another, and have respect for others involved in the collaboration.
- Whether the collective is demonstrating the ability to adapt to changing conditions, and to learn fast what is working and what is not.
- Whether the collective is trying to take on the right amount of work at the right pace.

Note that these are in effect professional judgements, and so a professional relationship management approach is needed. Compliance form filling and audit processes would need to be eschewed. However, this approach has the great advantage of focussing on what is important, while eliminating the wastage of compliance for compliance sake.

4.4.7 Making horizontal accountability work

The major problem corporate governance in a collective model needs to tackle is not agency costs but reducing the costs of conflict. Power and rents are not concentrated at the top of a steep pyramid; they are sprinkled throughout the collective, even outside its legal boundaries. Now that power is diffused, the major corporate governance problem moves from a principal-agent problem to how to prevent conflicts among stakeholders from paralysing or destroying the entity. While traditionally one of the great advantages of the hierarchical structure was that it concentrated all the control rights to a group with homogeneous interest, collectives undermine this advantage.

Thus internal horizontal accountability is the first and most critical issue to address in determining reporting obligations. What matters most for horizontal accountability is the fast feedback processes to members of the collective on how activities with the targeted population are working, and the results of interactions of members of the collective. It is suggested that this is best left to the entity itself to determine.

Having stipulated that, the Crown as investor is still entitled to assurances over its investment. Those assurances should be connected to the Crown's decision-making:

- An assurance that the goals of the collective impact entity still aligned with the government's goals (i.e. that the goals are shared). If a difference is emerging or discernible a discussion is warranted, and either corrective actions or revised expectations of goal achievement should result?

- An assurance that the collective impact entity is learning through its co-operative activity. Is its mana increasing or decreasing, and thus is the achievement of shared goals becoming more or less likely?
- An assurance that the budgeted resources been employed in pursuit of the goals. Should the agreed funding be speeded up or delayed?

If these assurances cannot be derived easily, at a low compliance cost, from the entities own internal horizontal accountability processes, this is most likely to be a sign that there are problems with those interactions that impact the collective's mana.

If the collective is showing signs of dysfunction, the collective investment manager is responsible and accountable for action, so that the performance of the collective investment portfolio is maintained, often in troubleshooting to ensure that the necessary backbone support is provided to the collective, but including, in the last resort, withdrawing government support.

4.4.8 Exiting from Collective Investment

Withdrawal of collective investment in social wellbeing will require the collective investment manager to show determination. In many cases, closing down a collective relationship will be an extremely contentious, political and difficult process. It requires risks to be taken, long-term thinking and a focus on goals despite significant constraints. Yet for collective investment to thrive, the creative destruction that occurs in other markets also needs to occur in the entrepreneurial social sector market.

There is no neat guide for successfully withdrawing from collective investment. No consistent linear process will make social disinvestment easier. Withdrawal of investment is closer to an entrepreneurial, political process than a managerial or technocratic one. However, there are a few common characteristics of successful withdrawals of investment that a collective investment manager can employ.

- Reallocations for better outcomes.
- Opening up to scrutiny, welcoming challenge and feedback.
- Valuing useful and accessible evidence.
- Creating platforms for a new type of engagement.

Reallocations for better outcomes

In most cases, the prompt for withdrawing an investment will come not from a need to make savings, nor to improve efficiency of current provision, but rather will be driven by an ambition to achieve better value for public money. The argument for investment withdrawal will be made on the promise of more effective ways to respond to a social need. The task is to mobilise people towards shared goals, creating a strong alliance for change.

As collective investment practice becomes more established, it will become more sophisticated. Collective investment cannot be designed around inputs – the number of consultants on call, or the number of staff available, but is likely to be needs based. The types of investments envisaged in this paper have the potential to support greater flexibility and scope for innovation in how needs are addressed.

This level of sophistication should flow through to disinvestment decisions. In current practice, disinvestment is somewhat behind investment in that it is still largely viewed as a cost and service funder-based decision, rather than as part of a strategy to redesign an approach.

In many cases, withdrawal of investment will be part of the route towards transforming outcomes over a long time, not just as a means to short-term efficiencies, cuts, or in response to poor performance. This process will need to engage Ministers, collectives and citizens in its formative stages, to establish what outcomes they should seek to achieve together.

Opening up to scrutiny, welcoming challenge and feedback

Collective disinvestment can be made possible following the investment manager showing a willingness to be open about their ongoing assessment of performance, and welcoming feedback from a wide range of perspectives. This is an attitude that actively seeks out opportunities for improvement, somewhat different from the relatively defensive position that can often be taken on performance.

This openness brings in new ideas, using inspection and review to spark innovation.

Public perception, aversion to risk, adverse media attention are often cited as barriers to innovation and decommissioning in public services, and can derail them. Deliberate attempts to manage public perception are possible by being open and explicit about the limitations of an existing approach. Challenge from different perspectives, can be used as fuel for transformation. The trend towards making data more open and accessible, presents an opportunity for a more constructive (and cost effective) challenge to what is currently provided. Combined with new online or social media tools that help to interpret data, opening up data to new scrutiny has the potential to support not only greater accountability in public services, but to make clear to the collective that the investment could be directed more effectively.

Making evidence usable and accessible

As with any investment decision, a clear and robust case is a critical component of social disinvestment. Collective investment managers will need to be very active in shaping evidence and using it to further their ambition for better outcomes and show they were delivering results. There is huge debate about how to measure the impact of interventions on complex social issues. But access to useful evidence can drive and support better decision making in what to stop doing and where to redirect investment.

The importance of using evidence to support collective investment decisions has been stressed already. Yet dealing with negative findings that expose the inadequacies of an existing approach can be extremely challenging. Investment managers may feel reluctant to use data available to challenge collectives, and collectives can feel reluctant to be transparent about variations. However, when evidence is used by collectives to spark improvement, a corollary is not shying away from highlighting what wasn’t working.

Collective investment managers need to be enabled to advise on investment withdrawal decisions on the basis of firm indicators of progress toward desired milestones. The absence of such measures can make it difficult to make the case for innovation away from current processes.

Platforms for a new type of engagement

Sustained engagement and communication with collectives and the population groups they serve will be critical to effective withdrawal of collective investment. But engagement is not limited to a bounded consultation exercise, or to a public event. What will be common to the most successful attempts to disinvestment will be how the investment manager has managed to engage with people in more compelling, more genuine ways.

Social disinvestment benefits from more engagement and co-production with people using and delivering services to mobilise around a vision for a new approach and to effectively break from the old. A sense of movement, collective support and energy help to 'pull' away from the old systems, enabling innovations to scale provides a platform for the creative destruction of less effective social interventions.

5 Conclusion

Improved wellbeing is most important, but also most challenging, for vulnerable people with complex needs. Literature from institutional economics and public sector management and governance literature emphasises a more collaborative approach where needs are complex. Restoring dignity to people so they can participate meaningfully with their families and communities requires a more collaborative approach. Whānau Ora demonstrates that a collaborative approach can result in positive change and create the conditions for the change to be sustainable.

To date, implementing such collaborative approaches in the public sector has been challenging. The New Zealand public sector's predominantly supports a hierarchical structure, where accountability systems act to ensure the government agencies' activities are aligned with democratically mandated Ministers' performance expectations. The underlying assumption is that a system where Ministers have the power to ensure that fiscal targets are achieved, and to specify what services are to be delivered is most likely to increase public value.

However, such a model is fundamentally inimical to a flat structure, where success is the result of collaboration, and accountability is targeted at reducing the incidence of free-loaders and hold-outs, rather than principal-agent problem. Within such a model, exhortations to collaborate more are unlikely to achieve sustainable success.

This paper proposes that the current challenge for the public sector is to develop a system that can operate both in an efficient and specialist way where needed, and collaboratively when that is important. Rather than the chaos and confusion that results from a single system that has competing definitions of performance, and different requirements of management and accountability, a more clear separation of the collective impact operating and funding models and the service delivery operating and funding models holds hope for an overall system that can operate well in both gears.

If a dual model is to be successfully developed, particular attention will be needed to be paid to collaborators: their skills and abilities, their motivations, their creativity, and their leadership and teamwork. Increased understanding and trust across agency-professional roles and boundaries will be necessary when a collaborative model is applied, and that will require smart practices.

The accountability structure for a collective model will need to be fit for purpose. High quality horizontal accountabilities between the participants in the collective are needed to prevent free riders and holdouts as they decide on the tailored, bespoke services provided to citizens and respond to fast feedback loops on the impact those services are having. Vertical accountabilities focused on measuring the commitment to shared desired outcomes and the level of reciprocal respect or mana of the collective, including the commitment to shared goals, should complement rather than compete with those horizontal accountabilities. Framed that way, such vertical accountabilities legitimise the investment in collectives by a representative democracy.

From a consideration of operating and funding models, this paper has proposed a number of design principles that could be used to develop a dual collective model in the New Zealand public sector. Drawing on those principles it has suggested the key structural elements of such a model, and commented on key decision-making processes. Most important is a centrally located, collective investment management presence.

Such an approach has the ability to draw citizens, iwi, NGOs and others into more collaborative and constructive relationships with the New Zealand government, to pursue the resolution of the most complex and important challenges our country faces.

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