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Integrated Service Delivery



STATE SERVICES
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Te Komihana
O Ngā Tari Kāwanatanga

This paper outlines a method for making decisions on integration of government service delivery, for example into a 'one-stop shop'. It includes an integration spectrum ranging from high integration to high specialisation, and an evaluation matrix with criteria for evaluating alternative arrangements. A text-case application of the method is also provided.

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Executive summary

The purpose of the project that resulted in this paper was to provide a method for determining when integration of government service delivery, for example, into a 'one-stop shop', makes sense.

The analysis undertaken in the course of the project indicated that a high degree of integration makes sense when:

- a set of preconditions are met (i.e. a clear role for government and common objectives or joint providers for the services);
- the current arrangements can be improved (in terms of efficiency, equity and other policy objectives);
- the timing is right;
- the option is practically feasible; and
- a full cost benefit analysis confirms the decision to integrate services.

An initial test-case application of the methodology to the formation of the Department of Work and Income confirmed its usefulness. It is intended that the State Services Commission (SSC) use the method in future to guide thinking on integration decisions relating to service delivery, both in terms of the optimal degree of integration that is desirable and the criteria that may be applied. The report also provides some guidance on more general contracting issues and other elements of organisational design.

No phrase expresses as frequent a complaint about the bureaucracy as does 'lack of coordination.' No suggestion for reform is more common than 'what we need is more coordination'.

Pressman and Wildavsky, 1984, p. 133

Introduction

The purpose of this paper is to outline a framework for determining when, and in what form, integrated service delivery (ISD) should be considered as a solution to government service delivery problems. The focus is on services to the public and does not include, for example, policy advice services to the Government. The paper includes an application of the methodology outlined in the framework to a test case, the formation of the Department of Work and Income (WINZ).

A number of factors make it appropriate to develop and test a framework for decision-making at this point in time. These include the prospect of further reform of the government's systems of service delivery; concern about the achievement of outcomes at government and individual levels; the desire to improve service delivery to government's clients (as a means of improving outcomes); the desire by communities to be involved in designing and delivering services; and technological developments that facilitate new ways of working within and across agencies.

This paper outlines a framework for making decisions about proposals for integration. It sets out preconditions to be met and criteria to be applied in undertaking an evaluation of various integration options. The proposed process is summarised in Appendix 1. Appendix 2 sets out a spectrum of integration options together with criteria to consider, and Appendix 3 contains guidance on the factors to consider in assessing the benefits of alternative contractual arrangements. Appendix 4 provides international examples of the various integration options, and a test-case application of the framework to the establishment of WINZ is described in Appendix 5.

Integrated service delivery in the literature

The literature on service delivery is large and diverse, but unfortunately provides little help with the issues facing this project. The subject of integration is approached from many different angles: case studies of integration; speculations on the future of electronic integration; advice on how organisations should manage themselves in a federal way; integrating for better policy coordination; integrating to cut costs by sharing corporate services; integrating to better meet client demand. The following quotes demonstrate some of these varied perspectives on integration:

"I think it [ISD] means basically organising services around the needs that our patients and communities demonstrate, rather than traditionally expecting them to find their way around the institutions that Government has set up".¹

¹ Bill English in *Radio New Zealand's "Crosstalk"*, Sunday 11 October 2:10 p.m., from *Newztel log*, p. 1.

*“Multi-agency partnerships arise from the search by public bodies for integration within an increasingly fragmented organisational framework”.*²

*“If the needs of all adolescents are to be addressed effectively, then an integrated approach involving inter-sectoral collaboration and inter-agency co-operation is required”.*³

The diversity of the material on integration is understandable given the many different types of integration that can occur, e.g. from a case worker purchasing services on behalf of a family (demand-side integration), to the creation of a new department from two or more old departments (supply-side integration).

In order to provide greater coherence to the discussion of integration an '*integration spectrum*' has been developed, ranging from very high integration to very high specialisation (see Appendix 2). While the nature of the integration can vary considerably, the basis for integration is usually shared desired outcomes and/or efficiency gains.

Key components of the decision framework

The main components of the flowchart (in Appendix 1) for decisions on integrating government services are:

- a set of *preconditions* that must be met before integration of government service delivery should be considered (see p.8);
- an *evaluation matrix of tests* (effectiveness, efficiency, equity and other public policy objectives) to be applied when comparing different integration options in order to reach a preliminary decision (see p.10 & Appendix 2); and
- a set of *management and other issues* to be considered when determining whether the option 'makes sense' in practical terms (see p.17).

The primary focus of the framework is to provide high level guidance for decisions on the integration of services. It does not deal with every specific consideration that might arise in a particular case.

There are many aspects of integration that the framework does not deal with, for example, the choice of intervention instrument in providing services, the level of government at which services should be provided, the balance between public and private provision, and the policy and implementation issues that must be addressed once a decision on integration has been made.

² Vivien Lendes & Chris Sklecher, “The Dynamics of Multi-Organisational Partnerships: an analysis of changing modes of governance”, *Public Administration*, vol. 76, Summer 1998 (313-333), p.313.

³ James Cumming, “Catering for the needs of all young adolescents: Towards an integrated approach”, *Unicorn*, vol. 20, no 2, June 1994, pp.12–20, p.12.

Preconditions

The preconditions for considering integration in government service delivery have been identified as: confirming a 'prima facie' role for government, joint objectives, and/or joint provision of services.

Does government have a role?

There are a number of basic rationales for government intervention. Because government has a unique attribute, namely its coercive power, a prima facie case for a role for government is typically based on its ability to address one or more of the situations listed below (e.g. through regulation, provision, taxation, exhortation etc). This test can be applied even if the Government has expressed a commitment to a particular role, in which case this stage of the analysis will help clarify the nature of the problems Government is intending to address. These problems include:

- *externalities and interdependencies*: situations where one person's (or organisation's) actions have unintended consequences (either positive or negative) on another person. These are situations where, given existing interventions, no private market exists to supply the desired goods (or at least the socially optimal level of them). Examples include: crime prevention and control; public health – since one person's health can affect the wider community.
- *market power*: situations where, given existing interventions, a 'competitive' market fails to arise and therefore one or more producers or consumers are able to exercise market power. This includes situations where various forms of bargaining power can give rise to inefficient monopoly effects; e.g. relatively high prices, reductions in quality. Examples include: some network industries.
- *information problems*: situations where, given existing interventions, imperfect information leads to market outcomes that are not socially optimal. Information problems can lead to opportunism, moral hazard⁴ and adverse selection⁵. Examples include: some forms of discrimination in the labour market; parental decision-making on health and education for children; limited information on quality of service providers.

⁴ *Moral hazard* refers to the standard insurance problem of 'hidden action'. After being insured or protected in some way (e.g. health insurance, access to unemployment benefits, job protection, etc) individuals can engage in behaviour that increases their chances of having to call on their insurance (e.g. smoking, shirking, etc). This behaviour is very difficult for insurers to detect.

⁵ *Adverse selection* refers to the problem of 'hidden information'. In many situations, it is very difficult for a buyer to measure the quality of a good or service. In these situations, prices tend to reflect average quality rather than true quality, and there is a tendency for quality to decline. This encourages participants in the market to invest in 'signals' of quality (e.g. university degrees become signals of innate ability rather than of acquired skills).

- *inequity*: situations where, given existing interventions, there are unjustifiable disparities in opportunities or outcomes. In some cases, these inequities are linked to the sorts of problems noted above. Examples include: poverty, low incomes, disability.

Joint objectives (demand-side issue)

Joint objectives exist where there are interrelated and multidimensional desired outcomes with sufficient commonality that they are difficult to disentangle. A test for joint objectives is to identify whether some overarching goals exist that link the desired outcomes. These desired outcomes may be sought by government, individuals or some other agency. For the purposes of this paper, it is assumed that the outcomes sought by different bodies are relatively well aligned, although this may not apply in specific cases where there are conflicts between the outcomes. (For example, government has an overarching objective of improving Maori educational outcomes. This has many components to it. One might be teaching in Maori. However, in practice, it is recognised that not all schools, communities or voters will necessarily want to pursue this particular objective).

From a client point of view, as opposed to a provider one, this criteria focuses on whether the joint consumption of services is more effective; e.g. by reducing transaction costs borne by those who are seeking the outcomes (which may vary between government as client and individuals as clients).

The 'Strengthening Families' programme, which encompasses various inter-related outcomes sought by government, provides one example of a programme with joint objectives.

Another version of joint objectives exists where a single large outcome is indivisible; i.e. cannot be broken in smaller, specific objectives with any degree of surety. The objective of 'social cohesion' may be considered an example of such an outcome.

Joint provision (supply-side issue)

Joint provision exists where there are a set of services that are sufficiently interrelated that grouping them together will reduce costs to providers. The test is to establish whether there is sufficient commonality and flexibility of inputs to the production of a set of outputs that there are cost advantages in producing the outputs together. Technically, such 'economies of scope' exist if a single organisation can produce a set of outputs together more cheaply than a set of individual organisations producing separate outputs. Commonality of inputs might refer to information, skill sets, or capital equipment. Flexibility in the use of those inputs is also important; e.g. whether capital equipment has very general uses (buildings), or skill sets are broadly transferable rather than specific.

Where there is joint provision, there is likely to be an overlapping client base. Some examples are delivery of health and welfare services through schools (full service schools), and WINZ (integrating services previously provided separately by businesses within the Department of Social Welfare and Department of Labour).

In practice, joint objectives and joint provision are likely to be closely related. An example of service delivery that has both these characteristics is the Waipareira Trust in Auckland, which integrates delivery of a range of services that were previously delivered separately. There is a joint demand by both Government and individuals for a set of joint outcomes that are difficult to dis-aggregate (reducing disparities between Māori and non-Māori, and delivery of services specifically for Māori, respectively). Joint provision reflects the commonality and flexibility of the 'inputs' used in delivering social services for Māori (including broad skill sets that are necessary to achieve a 'holistic' approach to service delivery to Māori).

Evaluation matrix

Having established a prima facie case for integration, and thereby clarified the objectives Government is seeking to achieve, it is necessary to assess whether integrating gives better value than current arrangements. There are two aspects to this assessment:

- identifying the range of alternative arrangements; and
- identifying the relevant costs and benefits of change from the current arrangements.

It is envisaged that the assessment process will be iterative, with successive comparisons between different options, as set out in the flow-chart (Appendix 1).

The attached evaluation matrix (Appendix 2) brings the two elements of the analysis together in summary form. The following sections explain these elements in more detail.

The range of alternatives: an integration spectrum

There is no single integration option. Rather, there is a whole spectrum of possible solutions ranging from full structural integration within a single organisation through various coordinated arrangements to separate, specialised services. These options can be assembled from various mixes and matches of:

- the various structural elements of the system of service provision;⁶ and
- alternative types of contractual arrangements.

⁶ In this paper, a 'system of service provision' refers to the production of some set of services that have been identified as having passed the initial tests set out in the flow chart (i.e. joint objectives and/or provision and a role for government).

Structural elements of integration

The structural elements of integration are the activities and structures that define the scope of an organisation's business and how it goes about that business. Thus organisations can make choices about:

- *range of outputs* (e.g. whether a school provides welfare services as well as education);
- *channels of delivery* for outputs (e.g. whether the distribution of services is via physical locations, phone or computer links, service brokers or client advocates, etc);
- *production of inputs* (e.g. whether the organisation contracts for the supply of inputs such as computer services, property services and human capital of various types, or produce such inputs themselves);
- *management structures* (e.g. how centralised or decentralised decision-making is, or the design of internal accountability mechanisms for aligning incentives across an organisation); and
- *ownership and governance structures* (e.g. whether the relevant organisations are private for-profit, not-for-profit, local government, or central government).

Alternative contract types

A variety of contracting arrangements can be used to structure relationships between and within the various structural elements. For example, an organisation that produces outputs (e.g. a school delivering teaching services to students) has many choices in how it goes about acquiring all the relevant inputs (e.g. teachers, property, cleaning services, payroll services, etc). In some cases, the organisation might 'contract out' through the use of formal commercial contracts. In other situations, it might internalise the inputs by producing them in-house. Alternatively, it might have informal agreements with some input suppliers (e.g. a local music teacher). These are examples of decisions about 'vertical integration' (i.e. decisions about how many stages of the production process organisations are involved in).

Choices can also be made about 'horizontal integration' (i.e. decisions about the scope or range of outputs an organisation produces). For example, a school might decide to provide counselling services as well as teaching services. Having done so, it has a choice over what contractual arrangements it uses to deliver these services (e.g. employment contracts, sub-contracting, joint ventures, etc). It also has choices over how the provision of these services might be linked (e.g. informal meetings between teachers and counsellors rather than formal agreements to discuss specific issues).

For each of the structural elements, the choice of contractual arrangement will depend on factors such as the frequency of the relevant transactions, how easy or otherwise it is to measure performance by the relevant parties, and the degree of uncertainty or risk associated with the transaction. (Alternative contractual forms and the factors determining their choice are outlined in Appendix 3.)

Integration spectrum

In order to reduce the number of possible combinations, and thereby simplify the analysis, the integration spectrum outlined below is focused on just two structural elements: production of outputs and channels of delivery. The choice of contractual arrangement and decisions about other structural elements are treated as second-order considerations. In particular, decisions about contracting out inputs (e.g. various support services) are not dealt with specifically in this paper (although the same sort of evaluation criteria will apply). The points on the spectrum are:

- *very high integration*: one organisation produces all the relevant services and has one (primary) channel of delivery (e.g. WINZ);
- *high integration*: one organisation produces most of the services and has one (primary) channel of delivery (e.g. Telecom, full service schools and integrated health services);
- *moderate integration*: one organisation produces most of the services but has multiple channels of delivery (e.g. many financial sector organisations – tellers, telephone banking & ATMs etc; Statistics NZ – shop front, telephone information services, PC INFOS & Internet access);
- *partial integration*: several service providers with a common (primary) channel of delivery (e.g. use of client brokers or advocates, Youth Justice pilots);
- *mixed systems*: several organisations produce the relevant services with multiple, shared channels of delivery (e.g. Crime Prevention Strategy); and
- *high specialisation*: several service providers with multiple, independent channels of delivery (boutique stores, separate community funding agencies).

International examples of these integration categories are provided in Appendix 4.

The costs and benefits of alternative arrangements

The pros and cons of alternative arrangements can be assessed in terms of standard public policy criteria, namely efficiency, effectiveness and equity as well as a group of 'other public policy objectives'. The actual costs (or disadvantages) and benefits will vary according to which option from the integration spectrum is being compared with the current arrangements. Some criteria are more relevant to integration of client services and channels of delivery, while others are particularly relevant to the integration of inputs.

Efficiency

For the purposes of this analysis, efficiency is defined as 'least cost for a given output'.⁷ It has to do with organisations achieving their optimal scale or scope.

Examples of the possible *benefits* of integration in terms of efficiency include:

- lower contracting costs with external suppliers (e.g. because hard-to-measure or highly uncertain outcomes make contract enforcement and monitoring of sub-contractors difficult);
- efficiencies in the use of common inputs such as the compilation and upkeep of databases; and
- lower human resource management and other corporate services costs.

Examples of the possible *costs* of integration in this area include:

- higher internal contracting costs (e.g. due to more complex tasks, multi-skilling); and
- monopoly provision giving rise to poor incentives on managers to maintain cost reductions.

Effectiveness

Effectiveness may be described as the extent to which both government's and clients' objectives are met, within the overall parameters of government policy ('value for money in achieving objectives'). Effectiveness will be a particularly important consideration in situations where there is diverse demand. For example, if a government objective is that every child has the opportunity to achieve their educational potential within the education system, then effectiveness would be about whether the varied educational needs of students were being met.

Examples of possible *advantages* of integration in terms of effectiveness are:

- better alignment and delivery of the government's policy objectives (e.g. objectives may be less likely to be fragmented and gaps in services may be more transparent); and
- integrated information systems may allow more effective matching of clients' needs with service provision.

Possible *costs* of integration in terms of effectiveness are:

- monopoly provision may weaken incentives to tailor services to minority groups; and

⁷ Strictly speaking, this is what economists would usually refer to as productive or technical efficiency.

- monopoly provision may lead to a deterioration in service quality.

Effectiveness and efficiency over time

This category concerns the ability of a system to adapt to change. It combines efficiency over time and effectiveness over time.⁸ Assessing effectiveness and efficiency over time involves considering the best arrangements for ensuring a match between provision and changing, possibly diverse, demand, as well as changing technology. This will be particularly important if there is a rapidly changing external environment. In situations where the nature of outcomes is highly uncertain or risky, a strong weighting may be given to this factor.

Examples of the *benefits* of integration in terms of effectiveness and efficiency over time include:

- shared inputs allowing more responsive, flexible providers; and
- shared information systems that might help to identify changing client needs and responses to the service.

Examples of possible *disadvantages* of integration in terms of effectiveness and efficiency over time include:

- monopolies generally face poor incentives to innovate (unless they are closely monitored by clients); and
- a one-size-fits-all approach may arise from integration, which could work against diversity of provision.

Equity

When considering equity factors, the following dimensions can be distinguished:

- *equity of opportunity*: this concerns equity of access to information and services, and fairness in the treatment received by different groups. Integration of services in one location might have benefits through enhancing access for a local community. Integration may also provide more standardised treatment and therefore enhance fairness (provided diverse clients are not simply treated as one homogeneous group). On the other hand, integration may reduce choice, and the number of locations at which services are delivered.

Integration may make it easier to be heard when expressing concern by changing providers or refusing a service are not available options⁹ thereby providing access to redress in the event of perceived unfairness or poor

⁸ Strictly speaking, this is what economists call dynamic efficiency.

⁹ It may be easier to be heard (enhanced 'voice') because there is one point at which to voice complaints or concerns about a range of services, rather than having to deal separately with a myriad of agencies. The inability to choose another provider ('absence of exit') refers to the fact that for some government services there is no non-government provider.

service quality. However, integration could also reduce the number of avenues for redress, unless standards of service and complaints procedures are built into the systems and processes.

- *outcomes*: this concerns the equality of social and economic outcomes for different groups. For example, the literature indicates that integration of services enhances outcomes for those with persistent, multiple disadvantages. However, there may also be reduced transparency and clarity of accountability for specific activities or results.

In each of the above forms of equity, it is possible to distinguish between vertical and horizontal equity, where vertical equity means that unlike cases are treated differently, and horizontal equity means that people with similar attributes are treated similarly (in relation to those particular attributes).

Other public policy objectives

In addition to efficiency, effectiveness and equity, there may also be other public policy objectives that are of interest. For example, government may want to demonstrate its commitment to better service delivery. Larger, integrated services may be more difficult to disband than smaller, separately provided services, thus providing some evidence of an intention to continue to deliver over the medium term (but possibly also reducing flexibility). Government may also wish to provide integrated services in order to maintain social capital within geographically remote areas. Issues of devolution as well as integration will need to be considered in meeting this objective.

There may be other broader objectives that a more integrated service may help achieve; e.g. reducing the size of government, reducing crime, increasing citizen self-reliance, reducing compliance costs, and increasing public or client input into service delivery.

Applying the evaluation matrix

Once the preconditions have been positively established (i.e. a role for government and joint objectives or provision) the evaluation matrix may be applied. Comparisons should be made between the existing arrangements and each of the integration options to establish, at a fairly high level of generality, which of the integration options have an overall positive rating. The ratings could be made in terms of 'signs' (+, 0, -). An overall summary rating may be calculated to determine, at a high level of generality, whether the effect of each alternative integration option is positive, neutral or negative.

Should it be demonstrated that the current arrangements can be improved, there will also need to be a reality check on whether it is the appropriate time to be making changes. The sustainability of any change; e.g. in terms of the political cycle, should be taken into account.

Once timing has been confirmed, practical management issues that have arisen should also be considered (as discussed below). When a possible option has been selected, a

thorough analysis looking at costs and benefits, using empirical evidence where possible, should also be undertaken to support any decision to proceed.

Practical management issues

This set of practical management issues has been developed from discussions with practitioners who have been involved in reaching and implementing¹⁰ decisions on increased integration of previously separate services. Other issues will be relevant in specific cases. (The implications of some of these issues for proposals for high structural integration are noted in brackets.)

- Can the desired results be achieved by enhanced management and/or contractual changes, instead of structural change? (If so, this may mean that full structural integration is not necessary).
- What risks arise from changing the current arrangements (e.g. for short-term efficiency and effectiveness – industrial disruption, relationships with stakeholders, longer-term capability), and is it likely that these risks can be managed successfully?
- Are legislative changes required to provide a mandate for increased integration? (If so, structural integration may not be feasible in the short term.)
- Are there alternative ways of encouraging the organisations to collaborate more efficiently and/or effectively? (If so, full structural integration may not be necessary.)
- Do the organisations belong to the same sector (public/private) and/or level of government (Public Service/wider State sector/local government)? (If not, there are likely to be substantial problems with structural integration.)
- How feasible is it to develop clear and transparent accountability arrangements for an integrated service? (If such arrangements are difficult to develop, a high degree of integration may be unsatisfactory in terms of accountability.)
- Are there complex client needs, an overlapping client base and overlapping service goals in the current arrangements that can be better addressed by integration? (If so, select the form of integration that has best net benefits according to the evaluation criteria.)
- Are there common values between the different providers in some area(s) of business? (If so, this may facilitate structural integration. On the other hand, structural integration may not be necessary and partial integration may suffice.)
- Are there common IT systems and/or delivery channels, or can these be developed at a 'reasonable' cost? (If so, this will facilitate structural integration. On the other hand, partial integration also becomes more feasible.)

¹⁰ Decision-making, rather than implementation, is the focus of this paper.

Application of method to a test case

The method has been applied to the integration of services from the Department of Social Welfare and the Department of Labour to form the Department of Work and Income (WINZ). The application of the methodology to this case confirmed that the methodology works in practice, and that the recommended outcome (i.e. full structural integration) would have been arrived at had this methodology been used when providing advice on integration.

Feedback from an official involved in the development of the advice in that case is that officials adopted an analysis methodology similar to this, although it was not expressed in quite the same way. The use of an articulated methodology such as this would have been helpful both as a guide to analysis (further to existing machinery of government principles) and as a check on the robustness of the analysis.

In the case of WINZ, the primary driver for integrating the New Zealand Employment Service (NZES), the Community Employment Group (CEG) and Income Support (IS) appears to have been a shift in the policy paradigm relating to the operational work of the agencies to be integrated. This shift in policy comprised a desire for greater regional focus and a desire for improved customer service. The desire for improved customer service, in turn, consisted of a desire for a 'one stop shop' for the delivery of employment and income maintenance services, and a desire for greater streamlining of employment and income maintenance policies. Furthermore, there was perceived to be duplication in the services that were provided to some groups of job seekers. This was seen as causing two problems, namely higher transaction costs for the job seeker and inefficiency. That is, in the end, the integration of WINZ was perceived as a situation involving joint provision.

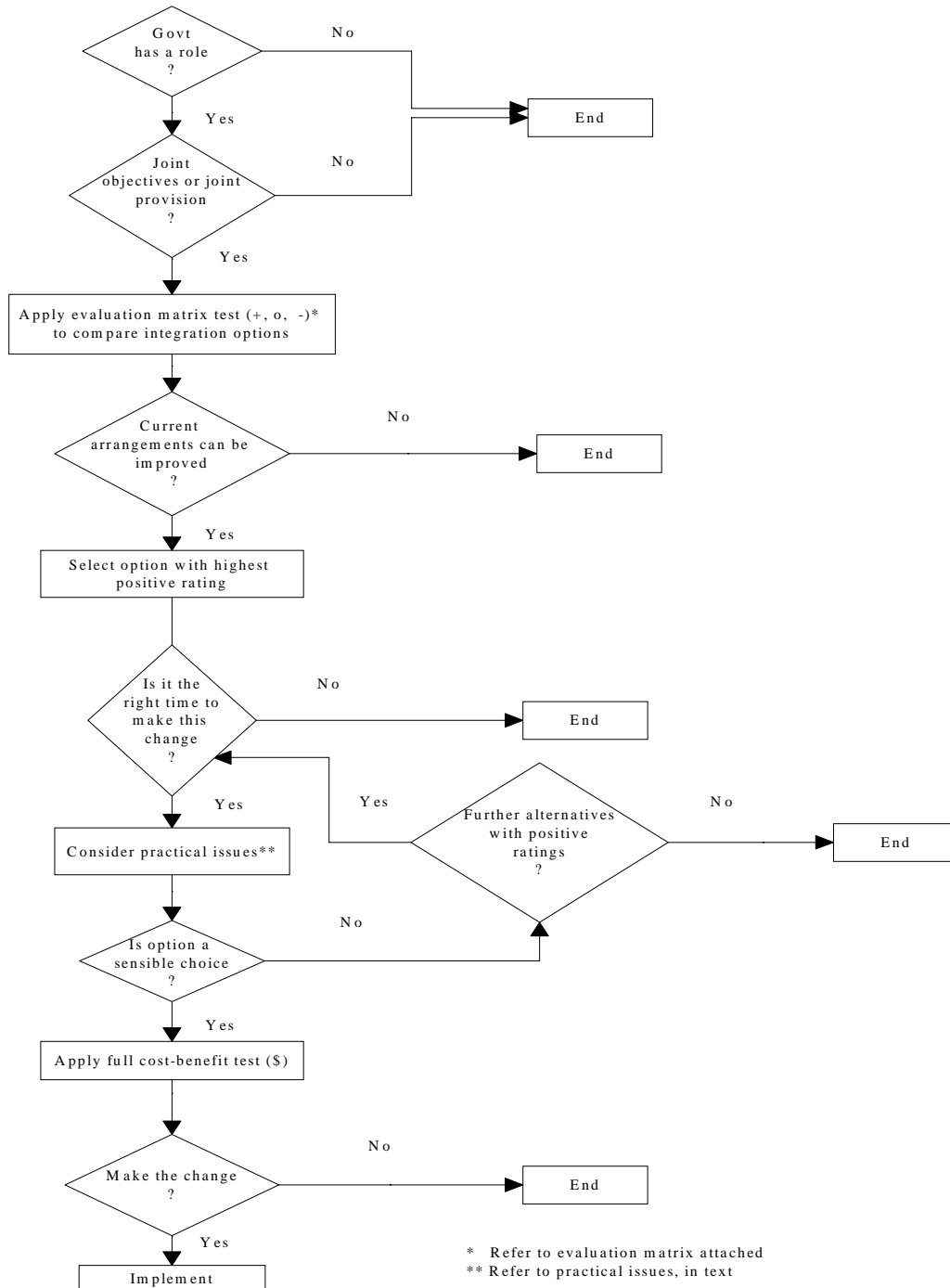
Furthermore, WINZ was responsible for the payment of benefits, pensions and financial assistance exceeding \$11 billion to more than 820,000 New Zealanders. Because there is no private market that ensures adequacy of income for New Zealanders, and there is currently no incentive for private employment agencies to place all unemployed people into work (let alone train them to be work ready), a clear role for government applies.

The evaluation matrix supported full integration in this case study as the highest rating option. The change was also supported in terms of the set of practical tests and the cost-benefit analysis. An outline of the case study and conclusions is contained in Appendix 5.

Concluding comment

The SSC intends to test this method in preparing future recommendations to the Government on the integration of government service delivery. The SSC welcomes external feedback on this paper.

Appendix 1: Flowchart for decisions on integrated government service delivery



Appendix 2: Evaluation matrix (for paired comparisons¹¹)

Criteria for evaluating pros and cons of alternative arrangements	'Integration spectrum' (see p.12 for description of integration options 1–6))					
	1: Very high integration	2: High integration	3: Moderate integration	4: Partial systems	5: Mixed systems	6: High specialisation
Efficiency: Least cost for given output						
Effectiveness: Value for money in achieving objectives						
Effectiveness & efficiency over time: Able to meet changing demand over time						
Equity of opportunity: Changes in access to services, and treatment, for particular groups						
Equity of outcomes: Changes in the outcomes for particular groups						
Other public policy objectives: e.g. demonstrating political commitment to better service delivery; building social capital in remote locations etc.						
Summary ratings						

¹¹ The evaluation criteria (efficiency, effectiveness, etc) are described more fully on pages 13–15, while the overall application of the matrix is outlined on pages 15-18. Each option (or the particular options under consideration) on the evaluation spectrum may be compared with the existing arrangements and ratings given against the criteria in terms of signs (+, 0, and -). It is suggested that a record of the reasons for the ratings is kept for future reference and discussion. A summary rating for each of the options under consideration is then calculated to determine which, if any, has the highest positive rating. The remaining tests in the flowchart for decision-making (appendix 1) are then applied.

Appendix 3: Decision-making on alternative contractual arrangements

Vertical integration is to do with how many stages of the production process an organisation is involved in (e.g. whether it just distributes services on behalf of another organisation rather than producing *and* distributing the services). *Horizontal integration* is to do with the scope of activities of an organisation (e.g. whether it specialises in supplying just one or two services rather than providing a wide range of outputs).

In making decisions about vertical and horizontal integration, an organisation can choose between a wide range of contractual arrangements. These include:

- informal agreements between different organisations or individuals (e.g. working groups);
- formal agreements (e.g. memoranda of understanding);
- loosely defined legal contracts (e.g. general sub-contracting arrangements);
- tightly defined legal contracts (e.g. exclusive franchising deals);
- joint ventures (e.g. two separate organisations setting up an independent subsidiary);
- 'in-house' formal contracts (e.g. employment contracts and explicit performance agreements between managers and staff); and
- 'in-house' informal arrangements (e.g. informal understandings and 'rules of thumb' within organisations).

In other words, the choice is not simply whether to integrate or not. For example, while a service provider may decide not to distribute its services directly to the public, it may have an exclusive, tightly specified contract with a single distributor (perhaps monitored and enforced by a third party). In practice, this is quite close to producing distribution services in-house through the use of formal employment and performance contracts. At the other end of the spectrum, it might simply have informal agreements with a range of distributors who also distribute other providers' services.

The choice of contractual arrangement will depend on such factors as:

- how specific the assets used are to the transaction;
- how frequently the relevant services are transacted;
- how uncertain the outcomes of the transaction are;
- the risk of opportunistic behaviour by the parties to the transaction;
- the legal status of the parties;
- how readily relevant outputs can be appropriated or divided; and
- how easily contract performance can be measured.

For example, frequent transactions involving highly specific assets (e.g. client-specific skills) and difficult to measure outcomes are very likely to be dealt with via in-house contracting (e.g. supply of regular, specialised counselling services). In contrast, transactions involving general assets and easily measured performance will most likely be organised around simple subcontracting arrangements (e.g. supply of cleaning services).

Appendix 4: International examples of integrated service delivery

Overseas examples of the arrangements described in the integration spectrum are outlined below. In several countries, the complexity of the arrangements is also increased by the involvement of several levels of government (Federal, State and local).

Very high or high integration

One organisation produces all or most of the relevant services and has one (primary) channel of delivery.

This is the traditional organisational form for the delivery of government services: large departments combining a range of policy, regulatory and delivery functions (e.g. the Departments of Health and Education prior to the reforms in New Zealand). Other examples include the Foreign Affairs and Police departments in most jurisdictions.

Moderate integration

One organisation produces most of the services but has multiple channels of delivery.

Canada

Service Delivery Network – Human Resources Development Canada is setting up 100 main Human Resource Centres, supported by 208 satellite offices, to provide various in-person services such as Employment Insurance and other "administrative and back office functions."¹² (Note: this is an example of integrated provision of inputs – shared services to organisations – rather than integrated provision of services to the public).

Partial integration and mixed systems

Several service providers with a common primary channel of delivery or multiple but shared channels of delivery

Australia

Centrelink – one-stop shop developed by three departments (Social Security, Employment, Education and Youth Affairs). Created by legislation in July 1997, Centrelink operates by service agreements with government departments – it is not funded directly by Treasury. It has 401 sites (customer service centres; student access centres; career reference centres; call centres; area and national support offices; Youth access centres), built on the Department of Social Security network and partly on the Commonwealth Employment Service Network.¹³

¹² *New Zealand Institute of Public Administration Newsletter* (September 1998), no. 3, p.1.

¹³ Sue Vardon, "Integrating service delivery in the public sector through the innovative use of technology", in *International Journal on Information Technology in Government, Proceedings of 31st Conference of the International Council for Information Technology in Government Administration: "Integrated Service Delivery: Changing the Role of Government, 27-30 October 1997*, pp.17–28.

Bangladesh

Village Pay Phones – telecommunications services have been set up in rural Bangladesh via 70 village pay phones, providing communications where none existed previously. The phones also provide links to fire, hospital, and police services.¹⁴

Canada

Ontario Public Service – service delivery restructuring.¹⁵

- *ServiceOntario* – sixty kiosks handle half-a-million transactions a year for vehicle stickers, address changes, payment of fines and parking tickets. These kiosks are in convenient locations, such as shopping centers, and some can be accessed 24 hours a day.
- *Ontario Business Connects* – provides access to a wide range of business services, including electronic business registration. More than 50% of all unincorporated business registrations in Ontario are now made through OBC. The intention is to increase the links with other levels of government so that business customers can complete their business registration through one window.
- *Regional Delivery Restructuring* – shared services in one locality; e.g. some locations are establishing common over-the-counter services, shared local administration, management and programmes.

Edmonton Business Centre – employees from three levels of government in a single location provide information and service to business people, including advice to individuals contemplating starting a new business.¹⁶

Service New Brunswick – one stop shop government service centres (eight now operating) offering over 100 services to New Brunswickers.¹⁷

Ireland

Integrated Social Services System – it is proposed that information and advice about the whole spectrum of income maintenance schemes, grants, and all associated services be provided, where possible, at a convenient location in a one stop shop environment. The aim is to provide a single local contact point for customers that would be the gateway to the full range of social services provided by the State.¹⁸

¹⁴ *New Zealand Institute of Public Administration Newsletter, op. cit., no. 3, p.1.*

¹⁵ Michelle Noble, “How Information can enable the Government’s Agenda”, Keynote address to *Ontario Systems Council Annual General Meeting, 7 December 1997, pp.7–9*

¹⁶ Rob Dobell & Luc Bernier, “Citizen-Centered Governance: Implications for Inter-Governmental Canada”, in *Alternative Service Delivery: Sharing Governance in Canada*, Institute of Public Administration of Canada, Canada, 1997, pp.251–279.

¹⁷ Claire Morris, “The Changing Face of Government: Service to the Public in New Brunswick”, *Insights*, 1998, vol.3, no. 3, pp.1–2.

¹⁸ “Inter-departmental Report on the Development of an Integrated Social Services System”, www.welfare.ie/dept/reports/iss/index.htm, August 1996.

Portugal

INFOCID (Inter-departmental System for Citizen's Information) – an integrated database to which citizens can have a direct and user-friendly electronic access to up-to-date, organised and reliable information on rights and duties, and administrative procedures and formalities. INFOCID is a stand-alone system of kiosks, installed in public places directly accessible to citizens on a 24-hour basis.¹⁹

Singapore

Education Administrative Services on the Internet – the Ministry of Education has a virtual one-stop counter to provide registration for state examinations; release of examination results; application for admission to post-secondary Colleges, Institutes, Polytechnics, etc. for over 90 courses; and release of posting results to applications.²⁰ (Note: If the Ministry of Education runs all these, then this is an example of Moderate Integration).

United Kingdom

Joined up Government – intends to provide integrated frontline service delivery through the use of information technology (either through the Internet, or kiosks).²¹

Lone Parent Advisors – to deliver better coordinated services to sole parents.²²

United States

Web Interactive Network of Government Services – government agencies are working to provide seamless services on a world-wide web site. The sponsoring agencies are U.S. Postal Services and local, State and federal agencies. Later, it is hoped to have public terminals in libraries, post offices and shopping malls.²³

Children at Risk Programme – based on-site in a target school, the CAR project joins community-based preventive social, educational, and health services with juvenile and criminal justice system intervention in a multi-agency collaboration. To participate in the programme, youths must live in a geographically defined neighbourhood and attend the target school.²⁴

¹⁹ “Portugal Country Paper”, *OECD PUMA project on Strategic Review and Reform*, November 1998, pp.11–12.

²⁰ *New Zealand Institute of Public Administration Newsletter*, September 1998, no. 3, p.1.

²¹ Sandford Borins, “A Report on Proceedings”, *The Shifting Boundaries of Government: A United Kingdom Conference*, March 1998, p.9.

²² United Kingdom Country Paper, *OECD PUMA project on Strategic Review and Reform*, November 1998, p.6.

²³ Anonymous, “Wings over America”, www.dialogweb.com/cgi/dwclient

²⁴ Tapper, D. Kleinman, P. & Nakashian, M. “An Interagency Collaboration Strategy for Linking Schools with Social and Criminal Justice Services”, in *Social Work in Education*, 1997, vol. 19, no. 3, pp.176–188.

High specialisation

Several service providers with multiple, independent channels of delivery.

This form of provision is appropriate in situations where most of the conditions for competitive markets apply. Examples include specialist medical services and other forms of specialist service provision.

Appendix 5: Case study: the Department of Work and Income (WINZ)

Introduction

On 1 October 1998, the Department of Work and Income (WINZ) was established, merging the New Zealand Employment Service (NZES), the Community Employment Group (CEG) and the Local Coordination Unit of the Department of Labour, and the Income Support service of the Department of Social Welfare.

This case study applies the decision framework set out in this paper to the establishment of WINZ. The two largest businesses merged to establish WINZ were NZES and Income Support. The focus of this case study will be on those two key businesses.

The establishment of WINZ arose from the Statement of General Direction for the Government's employment policy, as set out in the now defunct Coalition Agreement. The Statement of General Direction provided that:

"The key objectives of the National/NZ First Government's employment policy will be reducing the percentage of job seekers who are long term unemployed, and involving job seekers while they are unemployed in part-time community work and training. Regions will be given greater influence over how these and other employment goals are met".²⁵

One of the key initiatives of this policy was expressed as being the acceptance, in principle, of:

"... the integration of the [New Zealand Employment Service (NZES)], the unemployment benefit division of [the Income Support service (NZISS)], the Community Employment Group and the [Training and Other Provider's (TOPs)] resources of the Education and Training Support Agency into the one Employment Service. Other employment focused resources may also be absorbed. Whether this is a stand alone service or part of the [Department of Social Welfare (DSW)] shall be considered as options".²⁶

Key components of the decision framework

The key components of the framework for deciding whether to integrate government services are:

- a set of *preconditions* that must be met before integration of government service delivery should be considered;

²⁵ Coalition Agreement, National/New Zealand First Government, Schedule 'A', 6 December 1996

²⁶ Idem.

- an *evaluation matrix of tests* (effectiveness, efficiency, equity and other public policy objectives) to be applied in comparing different integration options in order to reach a preliminary decision; and
- a set of *management and other issues* to be considered to determine whether the option 'makes sense' in practical terms (see p.8).

Each of these will be examined in turn.

Preconditions²⁷

Does government have a role?

There are a number of basic rationales for government intervention. Because government has a unique attribute, namely its coercive power, a prima facie case for a role for government is typically based on its ability to address one or more of the following situations:

- externalities and interdependencies;
- market power;
- information problems; or
- inequity.

WINZ provides income maintenance and employment assistance for all working age beneficiaries, non-beneficiary job seekers and low income workers.²⁸ These services include:

- assessing eligibility for benefits, grants and allowances;
- paying those benefits, grants and allowances;
- assessing job-seekers employability;
- case management of job-seekers to work readiness;
- directly providing targeted employment (and other) programmes;
- purchasing targeted employment (and other) programmes (e.g. the purchase of Training Opportunities Programme (TOPs) from Skill New Zealand (formerly Education and Training Support Agency (ETSA));
- post-placement follow-up of job seekers;
- brokering and managing employment and other work and training opportunities;
- working with communities to increase community employment capacity; and
- administering and paying student allowances.

²⁷ Preconditions are outlined on pp. 8-9.

²⁸ CAB (97)M47/20

WINZ is responsible for paying benefits, pensions and financial assistance exceeding \$11 billion to more than 820,000 New Zealanders. The government provides these benefits and financial assistance because there is no private market that ensures the adequacy of income for New Zealanders. And, in terms of employment outcomes, there is no incentive for private employment agencies to place all unemployed people into work, let alone train them to be work ready. Private employment agencies will potentially 'cream' only the best of the available labour pool for placement in their client organisations, thereby minimising their transaction costs. Hence, there is a role for government in ensuring that those who are not work ready, or who will not be picked up by private agencies, are work ready and matched to employment opportunities.

Joint objectives or joint provision

Joint objectives refers to interrelated and multi-dimensional desired outcomes that have sufficient commonality that they are difficult to disentangle. A test for joint demand is that some overarching goals exist that link the desired outcomes.

Joint provision exists where there are a set of services that are sufficiently interrelated that grouping them together will reduce costs to providers. The test is to establish whether there is sufficient commonality and flexibility of inputs to the production of a set of outputs that there are cost advantages in producing the outputs together.

In practice, joint objectives and joint provision are likely to be closely related.

The following key strategies, as specified in the Coalition Agreement, underpin the Government's desired outcomes:

- the integration of services delivered by NZES, Income Support, CEG, and ETSA to job-seeker beneficiaries (or communities) seeking access to employment assistance, income maintenance, and education and training assistance, with the objective of delivering seamless assistance to all clients;
- participation of job seekers in suitable part-time community work and training;
- the introduction of a community wage; and
- greater regional accountability and responsiveness to local labour market needs by establishing Regional Employment Commissioners (RECs).

The policy problem that Government sought to address through these strategies was that there are many people who move in and out of the 'system' and there is effectively a 'tail' of long-term unemployed and benefit-dependant people who need intensive management out of the system. In addition, it is desirable that people 'at risk' of becoming long-term unemployed or benefit-dependant are accurately identified and are prevented from moving into this long-term group.

The primary driver for integrating NZES, Income Support and CEG appears to have been a shift in the policy paradigm relating to the operational work of these three agencies. This shift in policy comprised a desire for greater regional focus and a desire for improved customer service. The desire for improved customer service, in turn, consisted of a desire for a 'one stop shop' for the delivery of employment and income maintenance services and a desire for greater streamlining of employment and income maintenance policies.

Furthermore, a perceived duplication in the services provided to some groups of job seekers was seen as causing two problems, namely higher transaction costs for the job seeker and inefficiency. Potential efficiency gains from organisational change included reduced corporate office costs, reduced ongoing staff costs, shared information technology, shared accommodation and reduced duplication of services.

In the context of the Government's overall employment policy, the effectiveness of the integration strategy related to how well integration would ensure that unemployed people would obtain unsubsidised work. This involved an assessment of whether Income Support and NZES, were, in essence, in the same business or two distinct businesses. This, in turn, depended on:

- the degree to which the focus, activities, skills and core competencies of Income Support and NZES were the same;
- the degree of accountability that could be established for achieving a reduction in the percentage of job seekers who are long-term unemployed and, as such, dependant on the benefit (i.e. do Income Support and NZES serve to achieve a common outcome); and
- whether it was possible reduce transactions costs to customers.

This assessment was divided on the first two points. It was recognised that there is a tension between whether two agencies with different foci, activities, skills and core competencies can be held accountable for a common outcome, and the fact that two such agencies blur accountability for achieving outcomes. Accordingly, in the end, effectiveness came down to eliminating duplication of service delivery activities and the ability to develop a 'one stop shop' that:

- provides a single point of entry for all beneficiaries and employment clients;
- provides case management within one organisation; and
- combines all post-placement support and in-work benefits.²⁹

That is, the case for the establishment of WINZ was ultimately not driven by perceived joint objectives but rather, by perceived joint provision.

²⁹ CAB (97) M47/20 & CSP(97) 215, p 6

Evaluation matrix³⁰

Having established a prima facie case for integration, it is necessary to assess the value of integrating relative to current arrangements. There are two aspects to this assessment:

- identifying the range of alternative arrangements; and
- identifying the relevant costs and benefits of change from the current arrangements.

This assessment is presented in the two versions of the Evaluation Matrix set out on the following pages. The first version provides a set of summary ratings against the various criteria for each integration option, while the second provides an explanation of the ratings.

³⁰ For outline of evaluation matrix, see p.10 and Appendix 2.

*Evaluation matrix version 1: summary ratings*³¹

Criteria for evaluating alternative arrangements	'Integration spectrum' (see p.12 for description of integration options 1 – 6)					
	1: Very high integration	2: High integration	3: Moderate integration	4: Partial systems	5: Mixed systems	6: High specialisation
Efficiency: Least cost for given output	++	+	0	-	-	-
Effectiveness: Value for money in achieving objectives	+++	++	+	0	-	-
Effectiveness & efficiency over time: Able to meet changing demand over time	++	+	+	0	-	-
Equity of opportunity: Changes in access to services, and treatment, for particular groups	+++	++	0	0	0	0
Equity of outcomes: Changes in the outcomes for particular groups	+++	++	+	0	0	0
Other public policy objectives: e.g. demonstrating political commitment to better service delivery; building social capital in remote locations etc.	++	NA	NA	NA	NA	NA

³¹ The evaluation criteria (efficiency, effectiveness etc) are described more fully on pages 12–15, while the overall application of the matrix is outlined on pages 15–18. Each option (or the particular options under consideration) on the evaluation spectrum may be compared with the existing arrangements and ratings given against the criteria in terms of signs (+, 0, and -). It is suggested that a record of the reasons for the ratings is kept for future reference and discussion. A summary rating for each of the options under consideration is then calculated to determine which, if any, has the highest positive rating. The remaining tests in the flowchart for decision-making (Appendix 1) are then applied.

Evaluation matrix version 2: ratings and explanations

Criteria	'Integration spectrum'					
	1: Very high integration	2: High integration	3: Moderate integration	4: Partial systems	5: Mixed systems	6: High specialisation
<p>Efficiency: Least cost for given output</p>	<p style="text-align: center;">++</p> <ul style="list-style-type: none"> some division between officials over whether the focus, activities, skills and core competencies of IS and NZES were the same some division over degree of accountability that could be established for reduction in the % of job seekers who are long-term unemployed <p>It was possible to reduce transactions costs</p>	<p style="text-align: center;">+</p> <ul style="list-style-type: none"> some division between officials over whether the focus, activities, skills and core competencies of IS and NZES were the same some division between officials over degree of accountability that could be established for reduction in the % of job seekers who are long-term unemployed <p>Possible to reduce transactions costs</p>	<p style="text-align: center;">0</p> <ul style="list-style-type: none"> officials were somewhat divided over whether the focus, activities, skills and core competencies of IS and NZES were the same divided over degree of accountability that could be established for reduction in the % of job seekers who are long-term unemployed <p>It was possible to reduce transactions costs</p>	<p style="text-align: center;">-</p> <ul style="list-style-type: none"> unlikely to be able to establish significant degree of accountability for reduction in the % of job seekers who are long-term unemployed 	<p style="text-align: center;">-</p> <ul style="list-style-type: none"> unlikely to be able to establish significant degree of accountability for reduction in the % of job seekers who are long-term unemployed 	<p style="text-align: center;">-</p> <ul style="list-style-type: none"> not able to establish significant degree of accountability for reduction in the % of job seekers who are long-term unemployed

Criteria	'Integration spectrum'					
	1: Very high integration	2: High integration	3: Moderate integration	4: Partial systems	5: Mixed systems	6: High specialisation
<p>Effectiveness: Value for money in achieving objectives</p>	<p>+++</p> <ul style="list-style-type: none"> able to eliminate duplication of service delivery activities and develop a 'one stop shop' that: <p>(i) provides a single point of entry for all beneficiaries and employment clients; (ii) provides case management within one organisation; and (iii) combines all post-placement support and in-work benefits</p>	<p>++</p> <ul style="list-style-type: none"> able to eliminate some but not all duplication of service delivery activities and develop a 'one stop shop' that: <p>(i) provides a single point of entry for all beneficiaries and employment clients; (ii) provides case management within one organisation; and (iii) combines all post-placement support and in-work benefits</p>	<p>+</p> <ul style="list-style-type: none"> able to eliminate minor aspects of minor duplication of service delivery activities and develop a 'one stop shop' that: <p>(i) provides a single point of entry for all beneficiaries and employment clients; (ii) provides case management within one organisation; and (iii) combines all post-placement support and in-work benefits</p>	<p>0</p> <ul style="list-style-type: none"> not significantly able to eliminate minor aspects of minor duplication of service delivery activities and develop a 'one stop shop' 	<p>-</p> <ul style="list-style-type: none"> not significantly able to eliminate minor aspects of minor duplication of service delivery activities and develop a 'one stop shop' 	<p>-</p> <ul style="list-style-type: none"> not significantly able to eliminate minor aspects of minor duplication of service delivery activities and develop a 'one stop shop'
<p>Effectiveness and efficiency over time: Able to meet changing demand over time</p>	<p>++</p> <ul style="list-style-type: none"> as above; and collecting and reporting of integrated income and employment information able to help identify better interventions 	<p>+</p> <ul style="list-style-type: none"> as above; and greater collection and reporting of integrated income and employment information able to help identify better interventions 	<p>+</p> <ul style="list-style-type: none"> as above 	<p>0</p> <ul style="list-style-type: none"> as above 	<p>-</p> <ul style="list-style-type: none"> as above 	<p>-</p> <ul style="list-style-type: none"> as above

Criteria	'Integration spectrum'					
	1: Very high integration	2: High integration	3: Moderate integration	4: Partial systems	5: Mixed systems	6: High specialisation
<p>Equity of opportunity: Changes in access to services, and treatment, for particular groups</p>	<p>+++</p> <ul style="list-style-type: none"> all unemployed and beneficiaries have access to same information in one place with reduced transaction costs enhanced access for the local community 	<p>++</p> <ul style="list-style-type: none"> most unemployed and beneficiaries have access to largely the same information in one place with reduced transaction costs some enhancement of access for the local community 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries
<p>Equity of outcomes: Changes in the outcomes for particular groups</p>	<p>+++</p> <ul style="list-style-type: none"> standard treatment of all employed and beneficiaries enhanced voice – one place to raise concerns about range of services; reduced transaction costs for customers 	<p>++</p> <ul style="list-style-type: none"> increased likelihood of standard treatment of all employed and beneficiaries 	<p>+</p> <ul style="list-style-type: none"> some standard treatment of all employed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries 	<p>0</p> <ul style="list-style-type: none"> no change for unemployed and beneficiaries
<p>Other public policy considerations: e.g. demonstrating political commitment to better service delivery; building social capital in remote locations etc.</p>	<p>++</p> <ul style="list-style-type: none"> coalition promise opportunity to effect paradigm shift in terms of benefit payment (ie not a lifestyle option) ability to add greater regional responsiveness 	NA	NA	NA	NA	NA

Management issues and timing³²

In addition to evaluation criteria above, there were a number of management issues that needed to be considered when deciding to establish WINZ by integrating NZES, Income Support, CEG and LEC. These included:

(i) The potential for disruption of service delivery and loss of focus on policy outcomes

There were a range of transitional risks involved with moving to full structural integration, including the potential impact on business continuity and its possible impact on effectiveness. At worst, there was a risk that income support or superannuation would fail to be delivered as a result of disruption to delivery systems during the transition period. A loss of focus on the Welfare to Well-being Strategy in the delivery of income support could result in a potential blow-out in the \$10 billion Crown expenditure on social security benefits and New Zealand Superannuation. There was also a risk that there could be difficulties experienced in designing and implementing new policies (e.g. the community wage) during this period due to the uncertainty and the level of disruption in the organisations.

Another related risk was the possibility that, as a consequence of the need to focus (during a transition period) on the establishment of an integrated employment service, the capacity to cope with and deliver on interrelated government strategies might be reduced. For instance, Income Support may not have been able to concentrate on priorities for other government strategies (e.g. reinforcing parental responsibilities under the Strengthening Families and the current benefit reform programme). As a result, while employment outcomes stood to be improved by integration, other Government outcomes could have been affected during the transition phase.

A loss of focus on employment outcomes during the transition phase could have impacted on long-term unemployment with consequent costs to the Crown. Damage could have been done to employer relationships during the transition period and there could have been a lack of service to job seekers leading to increased length of benefit-dependence and unemployment, resulting in increased numbers of unemployed.

(ii) The potential for loss of efficiency

A more general transitional risk was the potential loss of productivity, efficiency and institutional knowledge that might occur during any transitional period. These risks are an inevitable consequence of any restructuring but increase as the scale of the restructuring increases.

³² Outlined on pp.15–17.

(iii) The timing of appointment of the chief executive designate and Regional Commissioners

There was a risk that the appointment of the new organisation's chief executive, Regional Employment Commissioners and senior managers would not be able to be made as quickly as is desirable. The time-frame for appointing a chief executive is generally in the vicinity of three to six months. Furthermore, there was a risk that the Transition Manager would progress the formation of WINZ down a path that was not consistent with the direction that the Chief Executive would take it, once appointed. There were two aspects of this issue, choice of governance and recruitment of a chief executive.

(iv) Staff transfer process and risk of industrial disruption

Rationalisation of management and staff within WINZ was forecast to result in redundancies (approximately 200). Changes to existing employment conditions, relocation of staff, the need to learn new skills, and general uncertainty caused staff dissatisfaction, loss of morale and the loss of key people during the transition period. Associated with this, the 'merger' of the two strong organisational cultures of NZES and Income Support needed to be carefully managed and will take some time yet to achieve.

Given the expiry of the Department of Labour's Collective Employment Contract (CEC) in March 1998, there was a risk of industrial action from NZES and CEG staff from this point, which was exacerbated by the changes underway. There were also risks surrounding the transfer of staff to WINZ, given that none of the CECs in force for affected staff include a technical redundancy clause and that the negotiation over the transfer process was likely to be protracted.

(v) Relationships with employers and community organisations/networks

Restructuring could have disrupted the existing relationships and networks that had been formed by existing agencies, and it is important for the functioning of WINZ that new relationships are able to be forged quickly, in order to achieve the Government's employment outcomes. This is particularly important in relation to employers, to ensure that they continue to lodge vacancies with WINZ.

(vi) Legislation

The development of WINZ required careful examination of legislation delivered by the Department of Social Welfare and the Department of Labour to determine the implications for integration.

Given the status of the Coalition Government, there was a risk that legislation would not be passed. In the end, the legislation was passed a mere four days before the Coalition Government was dissolved. Failure to have had legislation passed by 30 September 1998 would have resulted in the Chief Executive of WINZ not having the legislative authority or responsibility for functions under the Social Security Act 1964, and would have posed potential difficulties for transferring staff to the new entity,

thereby posing an implementation risk. Additionally, the time-frames required that attention needed to be given to setting tighter than normal deadlines for Select Committee consideration of the Bill. Ministers also needed to ensure that priority was given to the placement of legislation on the legislative programme.

In summary, many risks were identified in the move to full structural integration. However, the merger was deemed feasible, and the risks (including those of timing) were considered manageable.

Cost benefit analysis

One of the key issues that Ministers considered prior to the decision to integrate NZES, Income Support, CEG and LEC was the relative costs between non-structural (or ‘virtual’) integration and full structural integration. (Note: this form is equivalent to partial integration or mixed systems on the integration spectrum (see p.12) depending on the number of shared channels of delivery). These relative costs are set out in the following cost benefit summary, which was considered by Cabinet at the time Cabinet made its decision to proceed with integration.

Cost benefit summary

Function	Virtual	Full structural		
		Stand-alone	Part of DoL	Part of DSW
		\$'000	\$'000	\$'000
NPV³³ of Integration	20,849	98,110	94,256	103,453
IRR ³⁴	n/a	36%	36%	43%
Payback period	1 year	4 years	4 years	3 years
NPV of REC³⁵s	(29,607)	(23,279)	(23,279)	(23,279)
Total NPV	(8,758)	74,831	70,977	80,173
IRR	n/a	30%	29%	35%
Payback period	>10 years	5 years	5 years	4 years

Details of the forecast costs and benefits, and assumptions behind this summary were set out for Ministers. The cost benefit analysis confirmed the decision to proceed with full structural integration.

³³ NPV stands for Net Present Value which is calculated according to a formula based on net benefits, time (in years), and discount rates.

³⁴ IRR stands for Internal Rate of Return which means the annual rate of return on the initial investment.

³⁵ REC stands for Regional Employment Commissioners (subsequently renamed Regional Commissioners).

Conclusions regarding test case of framework

The application of the methodology to this case has confirmed that the methodology can work in practice, and that the recommended outcome (ie full structural integration) would have been arrived at had this methodology been used when providing advice on integration.

Feedback from an official involved in the development of the advice on the WINZ integration is that officials adopted an analysis methodology similar to this, although it was not expressed in quite the same way. The use of an articulated methodology such as this would have been helpful both as a guide to analysis (further to existing Machinery of Government principles) and as a check on the robustness of the analysis.