Creating public value
Transforming Australia’s social services
I am delighted to share with you EY’s guide to building Australia’s capacity to create and sustain public value.

Across the world, public service provision of social services is changing. Non-government organisations (NGOs) are increasingly being encouraged to expand their involvement in the delivery of public services. This is promoted by government as a means of diversifying service provision, promoting innovation and improving efficiency in the sector.

This synopsis presents a summary of the discussions facilitated by Professor Mark Moore with senior executives from government, NGOs, and carer organisations to discuss the future delivery of social housing, foster care and disability services in Australia. The transition to these arrangements can take up to a decade, during which time the supply sector needs to be developed. Or indeed, the service sector may not exist at all.

Our government team is available to work with you in generating ideas on how to best meet the challenges ahead. I hope you find this synopsis useful and insightful.

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In March 2014, EY held a workshop with Professor Mark Moore to open a dialogue on defining, measuring and managing public value, with government and public service delivery organisations. This synopsis summarises the main points discussed during that session and opens up new talking points to continue this important conversation.

1 Building Australia’s capacity to create and sustain public value

Context
In the context of increased demand, more complex cases, rising costs and dwindling resources, social services procurement is becoming a value-based commissioning activity to support individual choice and control.

In its new role as a designer and commissioner of services, government is shifting direct delivery of social services to the not-for-profit and non-government sector (NFP/NGO). This transition is creating unprecedented challenges, requiring considerable work to prepare the market to deliver what we estimate to be up to $100 billion of services in the future.

These preparations are likely to occur within:

- Government agencies responsible for delivering desired social results
- Private organisations readying themselves for new working relations with government and one another
- Clients who will have greater choice and more responsibility for managing their own care

The challenge is to build a strong public private production system that can meet the demands of clients and achieve desired social outcomes.

1 Estimate based on reported 2014-15 federal government social security and welfare expenditure of $146 billion.
About Mark Moore

Mark H. Moore is Hauser Professor of Non-Profit Organisations at the Harvard Kennedy School of Government, and Herbert A. Simon Professor of Education, Management and Organisational Behaviour, at the Harvard Graduate School of Education. Moore has pioneered research on the way public leaders can engage communities in supporting and legitimising their work. Moore is also senior lecturer with the Australian New Zealand School of Government, teaching the master classes in public policy, and understands the Australian and New Zealand policy context.

Mark Moore defines public value as the equivalent of shareholder value in public management, with the public sector acting in the best interests of the collective. The fairness with which public benefits are distributed, and public duties imposed, is as important as the achievement of social outcomes or the satisfaction of individual clients.

His public value approach is designed to get public managers thinking about what is most valuable in the service they manage and consider how effective management can make the service the best that it can be. It presents a way of improving the quality of decision-making, by calling for public managers to engage with services users and the wider public, thereby promoting greater trust in public institutions. In the process, it meets the challenge of rising expectations of service delivery from citizens, taxpayers and clients head-on.

“The challenge for government is to ‘wiggle’ the instruments it has to influence market conduct to get desirable public results.”
Defining public value and its local relevance

The idea of public value

The workshop began by defining the idea of public value: *using government assets to produce a good and just society*. This idea is challenging, because it focuses on the collective. Whereas private value is associated with satisfying individual desires, public value is about achieving social outcomes – not just end client satisfaction.

To create public value, all public services need clear objectives; moreover, the public must be involved in the process of deciding what these objectives should be. For example, the measure of how effectively and efficiently we are using government assets depends on how we define public value. Are we striving towards delivering client satisfaction, or achieving social outcomes, or treating individuals fairly – or all three?

The framework of public value to be advanced provides a different way of developing objectives, measuring them and managing performance against their delivery. Mark Moore describes this as “the difference between aiming for an arbitrarily defined performance target to give the appearance of accountability and performance, and developing a shared understanding of the important values that citizens, taxpayers and clients want to see achieved by and reflected in the operations of government.”

Specifically, the public value approach requires us to draw a clear distinction between the ends (the goals we seek) and means (the tools we use to achieve these ends). What matters in public value strategies is what works to produce outcomes, satisfy clients, and treat them with respect and fairness. There are reasons to believe that we can improve performance on all three of these dimensions simultaneously. To do so, we have to be willing to experiment and search for better methods than we now use. There is no single right way – but there is a right outcome.

Public value’s connection to the current transformation in disability, child protection and social housing

In Australia’s social services sector, calls for greater integration of health and social care, and the context of public spending constraints and cut backs, have meant a rapidly changing landscape. Already, we are seeing this transformation in:

- The National Disability Insurance Scheme: providing individual budgets for consumers, offering individual choice and control, backed by fee-for-service funding
- Social housing stock transfer: transferring assets to the NGO and for-profit sector
- Aged care provision: increasing life expectancy is placing greater demands on health and social services sector to provide better quality services

In each of these cases, competitive contracting for services is taking the place of traditional grant aid (a gift with objectives), enabling the individual client and service providers to determine how services will be delivered. In these new social services models, government, profit and non-profit organisations are contracting with each other, taking on mutual accountability for creating public value – in essence working together in a very different way. Making this new model of engagement successful requires:

- **Client engagement**: Government must know its clients and design services accordingly. This will require engaging with citizens to establish what they value most and, importantly, what adds value to the quality of individual and collective life.

- **Market stewardship**: Government must help providers to work efficiently and effectively by standardising applications, terms and conditions, and reporting requirements. These are all elements, beyond actual service delivery, that have a cost/time impact on a business/NFP.
“The commissioner of public value is not just the person on the government side of the transaction, but all the people on the non-profit side too, who commission themselves to produce public value by articulating their purpose, finding support in the broader community for that purpose, and pursuing that support.”

Professor Mark Moore

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- **Accountability:** Government must create direct accountabilities in contracts and contract management for agreed public value based outcomes, and develop measures to report on these to the public.
- **Risk management:** Government must improve its ability to recognise, own and manage risks. This will require a consistent cross-agency risk management framework that deals with differences in pricing risk.
- **Public value management:** All market stakeholders must collaborate to create public value. This means recognising it, communicating about it, and continuously improving service delivery outcomes to deliver it.

**Strategic management in the public sector**

Mark Moore introduced his ‘strategic triangle’, which focuses public managers on the three complex issues they must consider before looking at market design:

1. What is the important public value you are seeking to produce?
2. What sources of legitimacy and support authorise the agency, or wider system, to take action and provide resources to create that value?
3. What operational capabilities does the agency and service provider require to deliver this result?

The strategic triangle emphasises three-way demands on managers: upwards through organisational and political structures, downwards through management and operational lines, and outwards to the public.

The public manager’s aim should be to align the three points of the triangle. In other words, to achieve public value aims, the authorising environment and operational resources need to be harnessed to the stated aims.

![Figure 1: Mark Moore’s public value strategic triangle](image)
Value and performance

From the market’s perspective, the single most important thing is for the commissioning agent acting on behalf of the public to be clear about the value it wants to see being produced. Defining this ‘public value’ should involve discussions, not just with citizens, but with market participants, who often have a great deal of information to offer about what represents the best outcomes for individual and society. The traditional approach has been to focus on the efficiency and effectiveness of supply in meeting needs and wants, rather than starting from differentiated demand, the ‘end-user’ and social outcomes that are desired. In particular, NGOs should be allowed to participate in the negotiation over the dimensions of public value to be produced, how it would best be produced and measured. This will involve:

- Philosophical work in identifying the important values that are at stake
- Political work to make sure the named values are aligned with the political aspirations of the community
- Technical work to make sure we have appropriate measures to recognise when public value is being created
- Managerial work to develop and use the measures for external and internal accountability, and for continuous learning

From the commissioning agent’s perspective, the single most important thing is for market agents to be highly responsive to the value the resources are intended to produce, and to search continuously for improved methods.

Authorising environment

Gaining the revenue to fund public value delivery requires the support of multiple stakeholders, including: government, partners and stakeholders, users, interest groups and tax paying citizens. In effect, to secure the resources they need to operate, public managers must ‘sell’ these stakeholders a story about public value creation and keep communicating about progress in achieving these target outcomes. What is valued and what is legitimate to authorise is continually contested in the public sphere and requires the participation of the various stakeholders who play their role in the definition and realisation of public value.
“The strategic problem for public managers is to imagine and articulate a vision of public value that can command legitimacy and support — and is operationally doable in the domain for which they have responsibility.”

Professor Mark Moore
Defining public value and its local relevance

Organisational capacity and resources
At a practical level, public value aims must be achievable. Public managers must know how to mobilise their resources to create, organise and operate a market to meet the declared objectives. In an environment where resources such as finance, personnel, skills and technology are limited, the strategic ‘system’ manager will often have to lobby to increase, reallocate and/or better redeploy them to pursue public value aims. This may require the public manager to be both persuasive in making the case for mobilising the resources of partner agencies, and expert in regulating the performance of contracted bodies.

Executing the model - A successful mixed service economy model will depend on the exact nature of engagement between the government as the commissioning agent on the one hand, and the people from who the commissioner is hoping to get valuable production from on the other.
Analysing and designing public service systems

Mark Moore discussed the role of public managers in creating an ‘authorising environment’ that builds a coalition of stakeholders from the public sector, the private sector and the community and voluntary sector, whose support is necessary to sustain action.

Working effectively in this authorising environment will require public managers to ask:

**Who is the arbiter of value?**
The starting point of defining the value to be achieved is determining the arbiter of that value. The issue for public managers is that the arbiter of value is not just the client, but a collective, likely made up of: service users, tax payers, service providers, elected officials, Treasury and media.

How do we know what is publicly valuable?
From the perspective of this collective, public value must deliver:

- Customer/client satisfaction
- Achievement of social outcomes
- Fair treatment of individuals
- A just society

To determine what each of these looks like, in the context of a particular service, Moore’s public value approach provides a conceptual framework where competing values and interests of the collective can be expressed and debated. This process, where the collective effectively deliberates over a set of choices, includes engaging with citizens to establish what they value most and what adds value to the public sphere.

**How do we measure public value?**
Public managers need to construct appropriate measures to recognise and account for public value. This is a complex issue, requiring managers to decide, for example:

- Whether to measure outcomes or processes?
- How to deal with outcomes that occur late and unreliably?
- Where does client satisfaction fit in?
- How to cope with heterogeneous clients?
- How to triage for efficiency?
- How to do the most for the most deeply disadvantaged?
- Is there public value in R&D?
- How to manage contracting relationships?
- How to negotiate liability/changing contracts?
Sometimes the impetus for reviewing and changing a market comes from some form of dysfunction. For example, in the case of out-of-home care services for at risk children and young persons in New South Wales, the demand for services exceeded supply, costs were escalating and there were inconsistent service standards. In this context, government was a price taker, and not a price maker, and in some instances there was significant inequity in the service system between providers. Another issue was the lack of sufficient incentives for service providers to move children and young people, where appropriate, from high cost intensive residential care, to different less intense levels of general foster care.

To create a more sustainable and viable market, the government had to intervene and introduce consistent standards, unit prices and better allocate demand across NGO service providers. This required a ‘whole of market’ perspective and approach to optimise supply and demand, while also considering ongoing service provider viability, capacity and capability. It also required introducing incentives to encourage service providers to transition clients to the most appropriate and cost effective level of support.

**Case study: NSW out-of-home care**

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**Preparing for change** – There is almost no public condition, nor important social condition, that isn’t simultaneously affected by private individual, for-profit, non-profit and government agencies interacting with one another in an extremely complex way.
Analysing a public service industry

An ‘industry’ is created when demands for particular services are met by providers willing and able to supply the services. According to Mark Moore, social or public service industries differ from commercial industries in several crucial respects, in that they:

- Are often sustained by third party payers, either as resource providers and payers or as service producers – and these third party payers/providers include charitable contributors, as well as government funders.

- Produce goods and services in which the public takes an interest in overall level and distribution of resources from the perspective of equity and fairness.

- Focus on needs, entitlements and rights, rather than wants.

- Are created by the tools of government.

However, just like commercial industries, public service industry performance ultimately relies on sustained productivity gains. Thus, in structuring industry for performance, public managers must set up conditions that will drive three outcomes:

1. Efficiency
   - In satisfying clients
   - In achieving social outcomes

2. Fairness and justice
   - In the way clients are treated
   - In achieving outcomes

3. Productivity gains over time
   - Allocative efficiency
   - Technical efficiency
   - Innovation and improvement

To create a market with the organisational capacity and resources to deliver public value, public managers must identify the right mix of government, private and not-for-profit involvement to secure and deliver services that meet public policy objectives, while also providing sustainable value for citizens.

Successfully delivering public services in contestable environments
Creating public value – The most important thing for government to understand is that it is never acting alone in its efforts to try to improve individual and collective conditions.

Different options for shaping the industry

The workshop also discussed different conditions government could set up to shape a public service industry:

Privatisation
Withdrawing public assets from a particular market/social production system, allowing the free market to determine overall level and distribution of production and consumption of services.

Marketisation
Public money still being used to influence performance of market/social production system in a particular way, but government is fostering competition among suppliers to reduce costs, increase variety, and generate innovations.

Individualisation of public spending
Public money still being used to influence performance of markets/social production systems, but public dollars are turned over to individuals to spend (vouchers) with more or fewer strings attached.
Continuing the conversation on commissioning and contestability

Public value commissioning and contestability offers government approaches to service delivery that could solve the growing issues of affordability and service quality. As discussed in the workshop, at an industry level, contestability has the potential to create: greater responsiveness to individual demands, reduced costs and increased innovation. But getting these new models right is fraught with difficulty. In a poorly functioning market, government can easily end up as a captive buyer – or having to manage thousands of small suppliers – negating the cost benefits of non-government delivery.

**Challenges for clients**
- Lack of clarity of what services and supports are available
- Cost of accessing services and entitlements
- Extent of self-determination and ability to exercise rights
- Fear of reprisal if complaints are made
- Complexity of the service system
- One-size-fits-all programs that do not respond to differentiated needs

**Challenges for government**
- Estimating overall level of demand/needs, entitlements, total costs, and distribution of burden
- Differentiating demand from the client perspective rather than program guidelines approach
- Supporting high quality individual choices
- Developing suitable metrics for measuring performance at the service user and social level
- Arranging payments for performance that can meet cash flow needs of suppliers
- Making judgments about equity concerns
- Managing a risk portfolio of experiments and innovation

**Challenges for service delivery organisations**
- Defining a mission and distinctive competence
- Providing particular services to client groups
- Measuring values produced by and reflected in services

**How EY can help**

The sheer volume of new elements to consider in this public value approach can seem daunting, but you don’t have to reinvent the wheel. EY can draw from a host of local and global examples of successful public service industries – and on the expertise of people who have been involved in successful commissioning projects around the world. This is an opportunity, not just to cut costs, but to change the game – to make government service delivery sustainable over the long-term.

Commissioning can be a powerful catalyst of change. Our recent publication *Public Service Commissioning: A catalyst for better citizen outcomes* sheds light on key areas to consider when thinking about commissioning based on local and international experience.

We look forward to continuing our conversation and help you rethink your role in social services commissioning and provision, by taking a public value approach.
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