

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO PUBLIC SECTOR CONTRACT MANAGEMENT PRACTICES



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 8 APRIL 2019**

SESSION FOUR

Members

**Dr A.D. Buti (Chair)
Mr D.C. Nalder (Deputy Chair)
Mr V.A. Catania
Mr S.A. Millman
Mrs L.M. O'Malley**

Hearing commenced at 12.00 noon

Ms MICHELLE ANDREWS

Director General, Department of Communities, examined:

Mr GREGORY CASH

Assistant Director General, Commercial Operations, Department of Communities, examined:

Mr BRAD JOLLY

Acting Assistant Director General, Commissioning and Sector Engagement, Department of Communities, examined:

Ms PENNY KENNEDY

Acting Director, Stewardship, Department of Communities, examined:

Mr ROBERT RYE

Strategic Procurement Manager, Department of Communities, examined:

Mr GARRY YOUNG

Manager, Remote Essential and Municipal Services Program, Department of Communities, examined:

The CHAIRMAN: Thank you for appearing today to provide evidence relating to the committee's inquiry into public sector contract management practices. My name is Tony Buti. I am the committee chair and member for Armadale. With me today, on my right is Mrs Lisa O'Malley, member for Bicton; and to my left is Mr Simon Millman, member for Mount Lawley; and to his left is Mr Vince Catania, member for North West Central. Mr Dean Nalder, the deputy chair and member for Bateman, is unable to be with us today.

Thank you for your submission to the inquiry. We are likely to publish it after today's hearing, but I want to check whether you have any concerns that you would like us to take into account before we do so.

Ms Andrews: No concerns.

The CHAIRMAN: It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. While your evidence is protected by parliamentary privilege, this privilege does not apply to anything that you might say outside today's proceedings. I would also like to advise that today's hearing will be broadcast live through the Parliament House website.

We have a cast of thousands today. Is anyone back there doing any work!

In your submission, on page 3, you refer to high-risk, high-value contracts. How many high-risk, high-value contracts are in place across the department and what is their estimated total value? While I am on that question, how do you classify something as a high-risk, high-value contract?

Mr Jolly: Thanks very much for the question. Perhaps by way of introduction to the answer, with the formation of the Department of Communities, each of the former agencies had existing contract management systems and processes in place. On formation of the new department, there was no single source of truth for information about contracts across the organisation more generally. In

order to address that, we have established a centralised database of our contracts and we have been progressively drawing information into that centralised database to give us a more complete view of what the contracts are across the organisation. What I am able to say to you, in response to your question, is that we presently have, in relation to the data assembled in that database, 73 contracts in place across the organisation that exceed \$5 million in value. I do not have a total value for those. We can certainly take that question on notice if it suits the committee. It is 73 in excess of \$5 million.

The CHAIRMAN: That is what you determine as high risk, high value.

Mr Jolly: Certainly in terms of high value. I am not able to provide the information on what risk assessment we would attach to those right now, but certainly in terms of value in excess of \$5 million.

The CHAIRMAN: Do you have criteria for determining what is high risk?

Mr Jolly: Yes, we do. Again, it depends on the part of the business that you are applying that lens to. For instance, in our commercial operations there is quite a detailed risk assessment and management framework in place that looks at those projects through that lens. Elsewhere in the organisation, there are other frameworks in place that apply. It very much depends on —

The CHAIRMAN: Would you be able to provide us with those frameworks or those criteria?

Mr Jolly: Yes.

The CHAIRMAN: It was remiss of me, Ms Andrews, not to allow you the opportunity to provide an opening statement if you had one.

Ms Andrews: I did have one.

The CHAIRMAN: There you go!

Ms Andrews: I was just assuming that maybe this committee did not use that as a practice.

The CHAIRMAN: No. I was so eager to ask some questions.

Ms Andrews: Clearly. If the committee is agreeable, I will step through it. It does provide a bit of the context that Brad was referencing there.

Firstly, I thank the committee for the invitation to attend today and provide evidence about procurement and contract management practices in the Department of Communities. We hope that both in our submission and with the evidence we provide that you can see both the significance and importance we place on the function and where we are at the moment in terms of the reform agenda that is being implemented within the department. We wanted to give you some background information to give you some of that context and then help you with the questions you are going to ask us today.

As you are no doubt aware, the Department of Communities was formed on 1 July 2017 as a key component of the machinery-of-government changes that occurred at that time. The new department has brought together the functions of the former Department for Child Protection and Family Support; the Department of Housing and the Housing Authority, which Brad was referring to; the Disability Services Commission; and parts of the former Departments of Local Government and Communities, Aboriginal Affairs and Regional Development. We are now an organisation of over 6 000 people who work from almost 200 physical locations across Western Australia. I have been leading the Department of Communities as the interim director general since Grahame Searle's departure on 1 February, hence the army that has come with me, if you can bear with me on that front also.

Much of the work within the new department is focused on amalgamating the former agencies, integrating the functions and the business systems to lay a foundation for the transformation that we are seeking to bring about in the provision of human services in Western Australia. We are bringing those functions together for the first time in WA. That transformation is reflected in our purpose, which is “Collaborating to create pathways that enable individual, family and community wellbeing”. That purpose is in turn reflected in five outcome areas, which are the strategic pillars from which all our work flows—a place to call home, inclusive and accessible communities, strong families and kin, safe children and empowered people.

Communities is a very large purchaser of goods and services, with total annual expenditure exceeding \$2 billion. Most procurement activity across Communities is governed by the State Supply Commission Act, except for those procurement activities that are performed under the Housing Act. In its blueprint for reform, the service priority review in 2017 identified the opportunity to leverage government procurement to both reduce costs and improve outcomes for the community. That opportunity is reflected in the department’s strategic plan, which prioritises the targeting of our resources to deliver government priorities and achieve better outcomes.

Since I started in Communities, I have been impressed by the strides that have been taken to align the organisation with those outcomes. There has been good progress in harmonising business systems, procedures and governance structures. However, there is still much more to be done for us to achieve standards of excellence on the consistent basis that we are all looking for. From a procurement and contract management perspective, we have taken a number of steps to strengthen our approaches. We have established within our structure the commissioning and sector engagement division, which Brad heads up. That has aggregated the functions associated with the procurement and contract management of human services from each of the former agencies, except for Disability Services. Quite deliberately and intentionally, we have maintained Disability Services as a separate division within our structure to maintain a tight focus on the important task of transitioning clients to the National Disability Insurance Scheme. You can think of the role that Brad’s division plays as a bit like the Department of Finance plays for the whole of the sector. We have Brad’s division.

We are in the early stages of implementing a commissioning for outcomes approach across the organisation, which will commence with programs and services that are identified in the 10-year strategy to address homelessness, which is presently being developed. Procurement and contract management for commercial goods and services continue to be embedded within operational business units across Communities, and that work is supported by the procurement and contract, policy and coordination business unit or PACPAC, as we refer to it internally, which is responsible for implementing and guiding contract management best practice.

[12.10 pm]

PACPAC plays an important role, particularly in relation to high-value, high-risk contracts—which you were asking about at the commencement of this hearing—subject to controls that maintain probity and integrity in those processes. We still have some work to do to achieve similar and consistently high standards in the management of the low to medium-value risk contracts. Our audit and risk committee plays an important role in assisting us to identify and rectify those gaps, and we are also taking steps to strengthen the audit and risk committee itself, including looking to make some independent appointments to the committee in the near future, both the Chair and members of that committee. We are in the process of undertaking an internal audit of contract management practices to identify and provide a high level overview of the current structure, processes and policies in place. Our intention is to develop a whole-of-agency contract management framework

that aligns with the proposed whole-of-government framework, which is being led by the Department of Finance.

Finally, I thought it would be beneficial to address a matter that has previously been identified by this committee, prior to the machinery of government changes. In 2014 the committee examined follow-up work from the Auditor General report number 11 of 2012, “Second Public Sector Performance Report—Housing Authority’s Head Contractor Maintenance Model”. The committee suggested that the Housing Authority should include in its annual report the methodology and outcomes of its random samples of maintenance works valued at under \$500, and include in its annual report a comprehensive summary of the performance indicator data obtained from its head contractors. This summary should demonstrate the extent to which the model is driving better maintenance outcomes in the areas of timeliness, reduced costs and quality of workmanship. The Housing Authority has previously acknowledged that it did not comply with the committee’s recommendations to publish in its annual report its audit methodology and KPI results. This information was first published in the 2014–15 Housing Authority annual report and has continued to be reported on and improved upon since then.

At the committee hearing on 27 June 2018 regarding the Housing Authority’s response to the recommendations in the OAG 2016 report, “Fitting and Maintaining Safety Devices in Public Housing”, the committee raised the issue of reporting the specific regions related to the head contractor’s KPI performance. In 2017–18, the Housing Authority annual report, the specific regions related to the head contracts have been publicly recorded. The Housing Authority continues to manage the head contractors under a comprehensive performance management framework.

I will conclude my opening remarks at this point and hope that information was useful and assist you with the questions you have of us.

The CHAIRMAN: Thank you, Ms Andrews. Before I move on to my colleagues, just getting back to the high-risk, high-value contracts, it was mentioned that you have something internally called PACPAC—is that right?

Mr Jolly: Yes.

The CHAIRMAN: Do you manage the performance of all contracts, or do you actually use the services of Building Management and Works, and Strategic Projects?

Mr Jolly: Mr Cash might be able to speak to the specifics in relation to our commercial operations, but PACPAC has an oversight role across the organisation generally. It is a function that was situated within the old Department of Housing and we have extracted it out of the housing stream, if you like, and brought it into commissioning and sector engagement so that we can utilise them to monitor procurement activity across the organisation more generally.

Mr Cash: We do not use the services of Building Management and Works; however, given the similarities between some of the activities in terms of contract management, we do have ongoing relationships and share knowledge and information with Building Management and Works.

The CHAIRMAN: With regard to the managing of contracts, that is really the nub of our inquiry: performance management. Do you feel you have the capabilities and the personnel to actually do that in a manner that we can all be confident is being done properly to safeguard the state’s interests?

Mr Jolly: We do. Certainly, in relation to high-value, high-risk contracts there are, as I mentioned previously, some well-established systems, procedures and controls in place across the organisation. They do vary at different points across the organisation, depending on the subject matter, if you like, or the content, whether it is housing or disability services, for instance. We have

good controls in place. As is required by the State Supply Commission with the exemption that is granted to the department in relation to purchases, we undertake annually a review of compliance with State Supply Commission policies for an internal audit process. We undertake those processes and, as I mentioned previously, we have also expanded the role of PACPAC to monitor compliance, if you like, with those processes across the organisation more generally.

The CHAIRMAN: Do you from time to time bring in outside expertise to assist you in the managing of these contracts?

Mr Jolly: Again, this will be a consistent theme in my responses, it depends on the part of the business. Greg might be able to speak to the practice in the housing area.

Mr Cash: Certainly we bring in additional advice, guidance and expertise as necessary to help us ensure we are getting the outcomes from the contracts that we are looking for. As Brad suggested, the nature of our business spans construction-type activity right through to human services delivery, so depending on the nature of the activity, we will access appropriate advice if we feel that we need it.

The CHAIRMAN: Just before I pass over to Mr Catania, in respect of that, do you sometimes seek legal advice?

Mr Cash: Yes, we do.

The CHAIRMAN: Do you use the services of SSO?

Mr Cash: At times we do, yes.

The CHAIRMAN: Do you use the services of private law firms?

Mr Cash: Yes, we do.

The CHAIRMAN: How do you determine whether you use SSO or a private law firm?

Mr Cash: There is an existing panel of law firms that we use. Some are more skilled—the nature of some of our activities are more commercially property based. Generally speaking, where it is more government-related activity, we may use the State Solicitor's Office. On other occasions, where it is more industry commercially property focused, we may use the services of external private sector —

The CHAIRMAN: So you determine who you think has the best expertise to provide you the advice?

Mr Cash: Yes.

The CHAIRMAN: Thank you.

Mr V.A. CATANIA: With the housing maintenance contracts, how many contracts are there for the state?

Mr Cash: We have four head contractors that service the 11 regions, so there will essentially be 11 contracts across the four contractors.

Mr V.A. CATANIA: Do you review those contracts on an annual basis?

Mr Cash: We monitor them regularly. We have an ongoing performance management arrangement and a performance management framework under the contract. It is a rolling program that includes quarterly meetings with each head contractor and the nature of the contract which allows for certain periods of review and adjustment and then determinations whether we extend those contracts.

Mr V.A. CATANIA: With the head contractor model, how do you measure whether or not that head contractor is fulfilling the role of maintenance in a particular region?

Mr Cash: As I say, we have a performance management framework that covers a range of key outcomes that are identified in the key performance indicator reporting that we identify. There is ongoing quarterly engagement with them, as I said, to identify where there are weaknesses and strengths in performance and what appropriate modifications or adjustments may need to be made either internally in terms of our internal processes or externally with the contractors.

Mr V.A. CATANIA: With that contractor, is there an obligation with the head contractor to utilise local contractors—plumbers, sparkies, fencing contractors, you name it?

Mr Cash: Yes, there is a requirement for the contractors to have an industry participation plan, an Indigenous employment plan, an apprenticeship plan and a number of other plans under their overall contract management, and there is an expectation, to varying degrees, about those employment outcomes that they are able to achieve.

Mr V.A. CATANIA: So, is there a percentage, or a floor set in those contracts whether it be for Aboriginal participation or Aboriginal local employment, local employment?

Mr Cash: There are some targets, yes.

Mr V.A. CATANIA: For example, what sort of target are you looking at in terms of the local contractors being able to take on a maintenance role? We have a long history on this.

[12.20 pm]

Mr Cash: Exactly; there is a bit of background. As you are aware, there are different contracting models that are delivered. Some choose to self-deliver through internal staff; others seek to operate as more facilities management, and engage subcontractors exclusively. Each of those contractors provides us with advice and information on their level of local participation. There is not an exact set number, given the varying nature of the work, but there are some measures and monitoring of how effective they are at engaging those local tribes.

Mr V.A. CATANIA: How many head contractors did you say—four?

Mr Cash: Four.

Mr V.A. CATANIA: Are you able to provide a breakdown of the local component?

Mr Cash: We would be able to provide some information. I am happy to provide that as supplementary.

Mr V.A. CATANIA: When it comes to Aboriginal communities, who looks after the maintenance? I know the federal government has the responsibility over most communities, but they are contracted out to the state. Am I correct in saying that?

Mr Cash: There are some interesting arrangements around land tenure and ownership of the dwellings. However, maintenance services are provided through the Housing Authority, and we contract them through the head maintenance model.

Mr V.A. CATANIA: In terms of being able to ensure that maintenance is being provided, is there a different contract that you would have, say, in the town of Carnarvon than you would in other remote communities that lie outside Carnarvon? Burringurrah would be a classic example.

Mr Cash: Back in 2015, we moved to apply the head maintenance model in remote communities, in response to previous weaknesses and lack of controls over delivery and oversight of maintenance delivery into remote communities. The arrangements prior to that existed through what were known as gentlemen's agreements, which were essentially two-page contracts and handshake deals to work with local suppliers to deliver those maintenance services. We felt that there were some significant weaknesses in the allocation of work and oversight and guarantee of performance of

quality of work, so we applied the head maintenance model over the top. It is probably fair to say that that has created some challenges in the sense that the head maintenance model is designed in an urban environment where you have a level of participation by subcontractors and the level of capability, and you are not challenged by the tyranny of distance. As I say, it is fair to say that there are some challenges in that, and we are currently looking at how we may adapt the model to be better suited to delivery in remote locations, where there are limited trades, and how we can more effectively improve our internal processes, get value for money for government, and also deliver some increased Aboriginal employment outcomes throughout those communities by engaging the local skills and trades.

Mr V.A. CATANIA: So, that being a remote community that is obviously very difficult to get to, so your head contractor finds it hard to go out 400 kilometres from a major town, and then there is accommodation and all that, that is a problem. So, if there are people who live within the town or the community that have the skills, whether they have got carpentry skills or glazing skills, will the department sort of encourage the head contractor to be able to perhaps take up some of those employment opportunities to do the maintenance in a timely manner, rather than, perhaps, leave a pipe to run for days on end, if not weeks on end, because there is no-one who can go out there and fix it?

Mr Cash: Yes, we do that, and we try to connect the head contractors with those tradesmen to develop a business relationship. Obviously, negotiating all of those relationships is a mutual benefit situation in which they need to reach some accommodation between the two of them, but certainly we see it in the Kimberley work extremely well in some locations—not in all. It is a very big place, with lots of vast distances and different relationships are established. For instance, in Mowanjum, which is just outside of Derby, the local community tradespeople are actively delivering works for that local head contractor, including provision of some services to actual Derby town site. They deliver to some of the other remote communities as well, but that they are also delivering it into town. There are some strengths, but there are some challenges and weaknesses in some locations too.

Mr S.A. MILLMAN: I have got some questions following on from Vince's questions. Firstly, who are the four head contractors?

Mr Cash: Lakes Maintenance, Pindan Asset Management, Spotless and Programmed.

Mr S.A. MILLMAN: I think you said that those contractors take a different view as to how they are going to run their contracts; is that right?

Mr Cash: Yes.

Mr S.A. MILLMAN: Who does what? Who is a facilities manager? Who does the work for themselves?

Mr Cash: Lakes, Programmed and Spotless operate as facilities management models and engage a mix of subcontractors. Pindan, who operate in the Pilbara and the midwest, deliver through a 70–30 mix of in-house supplemented by subcontractors.

Mr S.A. MILLMAN: When they are tendering for the contract from the department, do they let you know that this is how they are going to deliver the contract?

Mr Cash: They did, yes.

Mr S.A. MILLMAN: Are you happy that there are different ways of delivering? Has it proved effective to have this variety?

Mr Cash: The contract was awarded in 2014, which was the backend of the mining boom, and when we crafted the tender—it was 2013—it was very difficult to get subcontractors to work throughout the Pilbara, so there was an element of risk management decision-making relative to the delivery model. We saw some benefit in choosing to go with the in-sourced model rather than heavily reliant on being a price taker in the marketplace.

Mr S.A. MILLMAN: When are these contracts up for renewal?

Mr Cash: We are currently going through a process to determine whether we renew or whether we re-tender.

Mr S.A. MILLMAN: Great. You identified the 2015 problems in answer to a question from Mr Catania, about how services were being delivered, and it changed as a result of that. How good is your auditing process? You are responsible for the whole of Western Australia. You cannot tell whether or not a plastering job in Esperance has been done to standard, and at the same time tell whether or not a plumbing job in Kununurra has been done to standard as well. How you go about doing your auditing?

Mr Cash: We take a lines-of-defence model, which is a standard assurance process, with a combination of different elements. The methodology for the approach is listed in our annual report—I am happy to provide that—which details the steps, but it includes a range of confirmation that the work has been completed, on-site inspections, checks and contact with clients to confirm they are satisfied with the work, verification of invoices to match the work that was requested versus the work that was invoiced. It then also includes a range of sample testing and technical checks by technically trained staff who actually go in and assess the works, and either do a book, desktop audit or actually on-site inspections.

Mr S.A. MILLMAN: So you are not just reliant on desktop audits?

Mr Cash: No.

[12.30 pm]

Mr S.A. MILLMAN: In terms of the decision to re-tender or to renew the existing contracts with the four contractors, one of the things that you mentioned was trying to connect the head contractors with those tradies and those remote Aboriginal communities. Does the state have leverage in the negotiation of these contracts, given the circumstances that we are in currently, as far as the market is concerned? I have two questions. First, does it have leverage in the negotiation of those contracts to try to incorporate those terms so that rather than trying to reach a gentleman's agreement, we can put strict terms in place to say this is a requirement that you are to use local tradies in the town so you do not have people coming from 400 miles away? Can we put those terms into the contract?

Mr Cash: Yes. We ask the head contractors to provide us commentary and advice as part of the review process about how they would deliver better value for money for government in terms of internal efficiencies in the process of the works, based on what they had learnt over the last four or five years; how they would increase employment opportunities and local engagement; and also how they would increase Aboriginal employment and training opportunities through the contract. As part of that, we have the potential to set some benchmarks and targets and monitor them against that depending on how we choose to go forward.

Mr S.A. MILLMAN: This is my last question. How have they gone with apprentices, Aboriginal employment, all those aspects? Rather than just committing to them, have we seen tangible results that have been measurable by the department?

Mr Cash: Yes.

Mr S.A. MILLMAN: Have you counted the number of apprentices who have qualified into full tradies, for example?

Mr Cash: I do not have that information, but I can see what we do have. I am happy to do that. They certainly report to us on their Aboriginal employment performance, and there are some set targets in there depending on the nature of where they operate within the state and the level of Aboriginal population and capacity in the industry. We are happy to provide any information you like on that.

Mrs L.M. O'MALLEY: Further on that line around accountability, we note on page 2 of your submission that you advise that your contract management activities are aligned with the SSC's policy on procurement, planning and contract management. Over the last five years, how many times has the department been found to be noncompliant with this or any other State Supply Commission policy, Treasurer's Instruction or SAMF mandate relating to procurement or contract management?

Mr Jolly: I might hand over to Ms Kennedy to answer that question. I would just go back to the point that the Department of Communities as the entity it is today has only been in place since 1 July 2017. I think one audit has been completed since that time. We are presently in the process of conducting the next audit, and that is due for completion quite soon, I understand. So in relation to the audit that was undertaken in 2018, I think Ms Kennedy can provide some information about that.

Ms Kennedy: Can I start by saying that when I mention value for money, I am talking about both social and economic outcomes and a combination of cost, quality and sustainability to meet customer and client requirements and the ultimate deliverability of that service, so I am not just referring to price and money in isolation. With specific regard to your question, there is strong governance and accountability that sits across all the procurement and contract management frameworks, including external bodies that apply a lens of scrutiny, independent of the Department of Communities, in looking at our procurement practices, compliance of delegations, planning processes et cetera. In the community services space that is the community services review procurement council, and in the goods and services space that is the STRC panel.

Mr Jolly: State Tender Review Committee.

Ms Kennedy: It is the State Tender Review Committee—that is the language I was looking for; thank you.

The benefit of that is you have that external lens looking at your compliance for all the stages, giving feedback. They actually have an endorsement function, so for contracts and procurement planning of \$5 million and above. An audit process was undertaken on the State Supply Commission requirements, where they looked at a sample of our procurement transactions between May 2017 and 2018. The sample within that group would only have just kind of come together, and they were looking thoroughly at the department for child protection and family support, housing, disabilities, what was the element of the department of local government and communities and the Regional Services Reform Unit. There was a sample of 97 arrangements that they looked at—goods and services, CUA purchases, and purchases under the delivering community services in partnership policy. There were only four findings for remedial action, and of those four, they were resolved to the auditor's satisfaction before completing the report. I have the details of the noncompliance and some of the corrective action, if you are interested in hearing about that.

Mrs L.M. O'MALLEY: Yes, that would be good.

Ms Kennedy: One of those four was that the CUA was not used as the preferred supplier. That was a risk rating applied to us as a low level of noncompliance, and since then a contract award checklist

has been implemented into the process as part of their remedial action. There was a buyers' guide for the use of temporary personnel, and when they looked at the contract register, that contract was not documented at the time of audit and there is a requirement that we do that. Contract management plans are required when the total value of the contract exceeds \$5 million, but the agency also has discretion to develop contract management plans as part of good process. It should not be only value that drives risk; there is a host of other considerations and variables, so it is at the agency's discretion to complete contract management plans outside of that process, and it does happen. There were two contract management plans, one for bereavement services and a parenting service, that were not completed at the time of the audit. One, I believe, I had oversight over, which was a parenting service, and it was going through the community services procurement review committee—CSPRC—and we were just waiting for the letter of endorsement. They were really minor fixes and actions that were required and, as stated, they were resolved to the auditor's satisfaction before publishing the report, but it was still important that they were cited and mentioned because there are always learning opportunities.

Mrs L.M. O'MALLEY: It sounds like you are taking direct action in regard to those findings.

Ms Kennedy: Correct.

Mrs L.M. O'MALLEY: But are you aware, previously, if there has been any noncompliance, if there have been penalties in place for noncompliance?

Ms Kennedy: I cannot speak to abatements et cetera. I mostly have the optics over the human services contracting side of things with the not-for-profit sector where there is a range of formal/informal contract management practices, some relationship management, active contract management, and if there is a formal event of default under the provisions, we work out action plans together. There is a formal performance review process, we give the supplier an opportunity to respond and we try and work our way through the issue to the satisfaction of the department.

Mrs L.M. O'MALLEY: Should there be a case where that has not been successful, is there opportunity, basically, to conclude that agreement or that contract? Are you aware of any situations where that has occurred?

Ms Kennedy: I am not aware of any situations where we have used the termination clauses under the contract. However, there have been situations more like by mutual agreement—perhaps a committee has dissolved and those organisations contact us and say that they wish to cease the arrangement early. If that happens, we look at the transition-out arrangements et cetera to minimise risk, particularly from that human services point of view, the risk to people who are recipients of those services who could be quite vulnerable and socially disadvantaged et cetera.

Mr Jolly: I might also add that one of the key strategic initiatives we have in place within the organisation presently is the implementation of the commissioning for outcomes approach. As part of that approach that we will be progressively implementing in the coming months and years, we will be transitioning away from the historic model where we have tended to purchase services for outputs instead of procuring for specified outcomes. One key thing about that is that when you are clearly specifying the outcomes that are intended to be delivered under the contractual arrangements, it provides you the capacity to put in place mechanisms that manage performance with tools like abatements. I should also mention that I understand in our disability services stream we have some contracts in place where we are managing performance. Mr Rye might like to speak to that.

Mr Rye: We have contracts with 340 service providers in terms of delivering services to people with disability, and they are actively contract managed. At times we do invoke breaches, and at times we

do not necessarily terminate that contract but just let it lapse, but with due provision to allow time to transfer individuals from one service provider to another.

The way we pick those up is through active contract management, but we also have an independent quality review process by independent assessors who go into a service provider to ensure compliance with the national standards with disability services. If their noncompliance required actions, they are required to follow up and if noncompliance continue, then we can and do bring the service agreement to a close. With new providers, because we have a raft coming through wanting to get into the NDIA, we do a contract review with independent assessors within 12 months.

[12.40 pm]

The CHAIRMAN: In regard to the NDIS and NDIA, when it is fully operational, will it be completely then under the responsibility of the commonwealth government, or will you still have an oversight?

Mr Rye: We are a bit careful here, because there is a functional review going on at the moment which will determine what elements, if you like, still remain in the jurisdiction of the state. But at the moment we are planning for those 340 service agreements to transfer to the commonwealth under their national safeguarding commission, and we will have no oversight of those processes.

The CHAIRMAN: Ms Kennedy, you mentioned the social dividend of high value, and I think it was also mentioned about Aboriginal employment and so forth, and it is great to hear that. You can measure social value in a way by saying it is the amount of Aboriginal employment, but there are other social aspects that we have to consider. What criteria do you use to measure social value in determining your high value? Do you know of any other jurisdictions where they also place some focus on social dividend, and is there a way we can measure that?

Ms Kennedy: I think there are a lot of other jurisdictions looking at social impact, particularly social investment frameworks, where we can think of different ways to solve wicked problems. Government may not always have the answers; there are lots of social enterprises, and there are opportunities for tripartite arrangements between government, social enterprises and service providers et cetera. I think government has a role to play as the market builder in the stewardship space and a participant in the social impact market. I think that we need to look at different ways to solve problems. Some jurisdictions are exploring social impact bonds, where governments are ultimately paying for success. I read and heard they are using that in the recidivism space, and I think in the homelessness sector. There are very challenging community issues to solve—government is one part of the solution.

I think through our commissioning model, working closer with the not-for-profit sector, we should look at other ways to leverage opportunity. I think that goes back to the nature of the procurement reform, and back to those planning stages when you are looking at the problem that you are trying to solve and your strategic response to that. You will see a lot of the policy settings now talk about co-design—that is something that the department is really serious about—with the right industry sector, but also those who have lived experience coming to the table and talking to us about what their experience has been like. So, policies, specification, services can all be designed in an open and transparent manner that has the right people around the table, the right voices being heard and particularly with a place-based focus. Communities has a really broad breadth of service delivery. It is not a homogenous one size fits all by any means, so I think devolving that co-design down at the district leadership level is really important, rather than it being a centralised ivory tower head office model. All the enablers are being developed to make that transpire and become operationalised within our organisation.

The CHAIRMAN: Mr Jolly, you had a follow-up?

Mr Jolly: Thank you very much, Chair. One of the other really interesting examples that we have become aware of quite recently is some work that has been happening in New Zealand where they are quite a way down the road in terms of implementing an approach in their social services that is based around community wellbeing. They have really shifted their emphasis from essentially a deficit-based evaluation of those wicked problems—that Ms Kennedy was referring to—where essentially the benefit is quantified as the net present value of the costs avoided to government, to applying a wellbeing lens in addition to that. The quantification of the financial benefit is obviously important, but so is the wellbeing more generally. There is some good work that is happening in New Zealand.

The CHAIRMAN: Can you take on notice if you can maybe provide us with other jurisdictions where this work has been done? I am very keen on how that is quantified.

Ms Kennedy: Can I just add that my understanding is that the Department of Treasury has started a small unit looking at social impact investment. Mr Brad Jolly, do you have any further information to add around that?

Mr Jolly: No; I am not able to speak to that.

Ms Kennedy: That is my understanding, that there may be a central government perspective looking at the feasibility of that in a Western Australian context.

The CHAIRMAN: Thank you. I just have some concluding statements to address to you.

Thank you for your evidence before the committee today. We will forward a copy of this hearing to you for correction of transcription errors. Please make these corrections and return the transcript within 10 working days of receipt. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be introduced via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. We will also be following up with some other questions, and also the questions we referred to today. Thank you very much for your attendance.

Hearing concluded at 12.45 pm
