



PUBLIC ACCOUNTS COMMITTEE

ACCOUNTABILITY AND NOT-FOR-PROFIT ORGANISATIONS

Report No. 49

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ACCOUNTABILITY AND NOT-FOR-PROFIT ORGANISATIONS

Report No. 49

Presented by:
Mr Max Trenorden, MLA
Laid on the Table of the Legislative Assembly
on 23 November 2000

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COMMITTEE'S FUNCTIONS AND POWERS

The Committee obtains its powers and functions from the Standing Orders of the Legislative Assembly.¹ Standing Order 299 states that the functions of the Committee are:

. . . to inquire into and report to the Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund.

Moreover the Committee is empowered by Standing Order 300 to:

- (1) Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- (2) Inquire into and report to the Assembly on any question which:
 - (a) it deems necessary to investigate;
 - (b) is referred to it by resolution of the Assembly;
 - (c) is referred to it by a Minister; or
 - (d) is referred to it by the Auditor General.
- (3) Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- (4) Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.

The Committee is also empowered by Standing Order 264, which states that:

A committee has power to send for persons, papers and records.

¹ On 7 September 1999, the Legislative Assembly agreed to Trial Standing Orders which replaced the former Public Accounts and Expenditure Review Committee with the Public Accounts Committee and redefined the Committee's powers and functions. On 21 December 1999, the Trial Standing Orders were adopted as amended and became effective on 1 January 2000.

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CHAIRMAN'S PREFACE

Mr Speaker,

I have for tabling the Public Accounts Committee's Report on *Accountability and Not-for-profit Organisations*, Report No. 49.

The Committee resolved to undertake this inquiry following recognition that with the implementation of National Competition Policy in Western Australia, there had been a dramatic shift in the outsourcing of welfare services to not-for-profit organisations (NFPOs). As a result of this shift, a substantial burden has been placed on NFPOs to meet contracting and accountability mechanisms.

During the course of this inquiry, the Committee advertised widely for submissions from interested parties, but was disappointed with the number of responses received. The Committee is of the view that part of the reason for this poor response could be attributed to differences in opinion among government agencies and NFPOs in the policies, procedures and outcomes relating to the provision of community services.

In Western Australia, there are more than 2000 NFPOs that deliver a wide spectrum of services. These NFPOs range from large to very small organisations and as a consequence, the issues faced by these organisations differ greatly.

The major issues faced by NFPOs include, *inter alia*, the use of scarce resources for carrying out administrative procedures, the lack of acknowledgement of the important role of volunteers and a lack of collaboration between government agencies and NFPOs in the determination of benchmarks and the development of uniform standards of practice.

The Committee found, *inter alia*, that there is no one standard approach to formulating service agreements/contracts, for contracting out welfare services or for evaluating the efficiency and effectiveness of outcomes relative to the delivery of social and community services. In addition, the perceived tendency by NFPOs to rely on estimates in determining the total financial cost of meeting accountability requirements is unacceptable. The total financial cost relative to accountability should be expressed as actual cost to remove uncertainty and adhere to the principles of transparency.

In conclusion, the Committee believes that the contributions of NFPOs to the community should not be underestimated and that a greater degree of cooperation between government agencies and NFPOs needs to be established to ensure that this valuable resource is utilised to its maximum level of efficiency and effectiveness.

I would like to extend my appreciation to the Members of the Committee for their contribution to this report. I would also like to acknowledge the contribution of the Committee's staff, Senior Research Officer, Dr Janet Preuss, Research Officers, Ms Amanda Millsom-May and Ms Liz

Kerr and in particular, Research Officer, Mr Alf Opie for his substantial contribution to the research undertaken for this report.

MAX TRENORDEN, MLA
CHAIRMAN

ABBREVIATIONS & ACRONYMS

ACOSS	Australian Council of Social Service
ACT	Australian Capital Territory
AG	Auditor General of Western Australia
CoAG	Council of Australian Governments
COSS	Council of Social Service
CSTC	Community Skills Training Centre
FCS	Family and Children's Services
HACC	Home and Community Care
HDWA	Health Department of Western Australia
ICNPO	International Classification of Non-Profit Organisations
MFT	Ministry of Fair Trading
MHD	Health Department of Western Australia - Mental Health Division
NCP	National Competition Policy
NFPO	Not-for-profit Organisation
NGO	Non-Government Organisation
PQS	Purchasing Quality Services
PSP	Preferred Service Provider
WA	Western Australia
WACOSS	Western Australian Council of Social Service Inc.
WPO	Women's Policy Office

SUMMARY OF FINDINGS

Finding 1

The allocation of resources is currently based on population distribution rather than on a needs basis, which results in significant disadvantages for regional areas.

Finding 2

Service providers are responsible for the *use* of government funding in their provision of services, while government agencies remain primarily accountable for the actual delivery of those services, standards of performance and the overall costs.

Finding 3

The cost impact of competitive tendering on social and community service delivery is based on inconclusive evidence.

Finding 4

There is no substantive evidence to support the view that competitive tendering is having a detrimental effect/positive influence on the quality of social and community service delivery.

Finding 5

Government agencies and NFPOs appear uncertain about funding arrangements for administrative, management and training costs.

Finding 6

Costs of tender preparation and submission have purportedly resulted in increased administration and overhead costs for NFPOs, based on estimated and not actual costs.

Finding 7

Whilst the Committee acknowledges the important role of the volunteer in the provision of social and community services delivery, it is unable to formulate any definitive statement on the impact of competitive tendering on volunteers.

Finding 8

Government agencies are experiencing difficulties in evaluating the efficiency and effectiveness of outcomes relative to the delivery of social and community services.

Finding 9

- (a) Government agencies are experiencing difficulties in developing and implementing meaningful and effective performance measures for outcomes relative to the social and community service sector.**
- (b) Difficulties in developing effective performance measures have resulted in government agencies adopting an uncoordinated approach to monitoring.**
- (c) Service providers and staff require a high level of training and support from funding agencies in developing action plans, implementing strategies and monitoring performance.**
- (d) The use of different performance standards has resulted in multiple and inconsistent accountability requirements for service providers.**

Finding 10

There is a lack of collaboration between government and NFPOs in terms of determining performance benchmarks and the development of standards of practice.

Finding 11

Government agencies do not have a standard approach to formulating service agreements/contracts.

Finding 12

There is no single recommended procedure for government agencies to follow with respect to contracting out welfare services. This leads to a fragmented and uncoordinated approach by different government agencies.

SUMMARY OF RECOMMENDATIONS

Recommendation 1

That the allocation of resources be primarily needs based.

Recommendation 2

The Committee recommends that:

- (a) the government agency remains totally accountable for the efficient and effective delivery of services, irrespective of whether social and community services are provided to the community by government agencies or not-for-profit organisations; and**
- (b) service agreements include definitions and a clear delineation of the accountabilities that government agencies and staff have towards both NFPOs and community users.**

Recommendation 3

The Committee recommends that:

- (a) NFPOs responsible for the use of funding in delivering social and community services should be audited on an actual cost basis by an independent body; and**
- (b) government agencies accountable for the delivery of social and community services by NFPOs be audited on an actual cost basis by an independent body.**

Recommendation 4

That government agencies , in terms of competitive tendering on the quality of service delivery:

- (a) fund independent empirical studies; and**
- (b) conduct the research such that it encompasses the input of government agencies, service providers, recipients of service delivery and other relevant stakeholders.**

Recommendation 5

That government agencies determine a funding policy specifying the manner in which administrative, management and training costs will be funded within existing contractual arrangements.

Recommendation 6

The Committee recommends that:

- (a) government agencies ultimately accountable for the delivery of social and community services should fund empirical studies into the actual cost impacts of competitive tendering; and**
- (b) the studies should include input from all sectors actively involved in the delivery and receipt of social and community services, e.g. providers, purchasers, users and representative bodies.**

Recommendation 7

That government agencies responsible for social and community services fund independent empirical studies into the impact of competitive tendering on volunteerism.

Recommendation 8

That government agencies ultimately accountable for the delivery of social and community services undertake evaluation training in order to be in a position to determine whether funded services are contributing to the achievement of outcomes desired by the Government.

Recommendation 9

The Committee:

- (a) endorses the recommendations of the AG² in respect of the role that government should adopt to coordinate a strategy for managing the tendering out process, rationalise the multiple and inconsistent accountability requirements for NFPOs and prepare practice guidelines on tendering for welfare services delivery;**
- (b) recommends that government agencies, service providers and community users develop efficient and effective performance indicators through consultation and agreement between government agencies, providers and users that focus on community needs and quality of outcomes (improvement of clients' quality of life); and**
- (c) recommends that both government agencies and NFPOs undertake training in performance monitoring and in particular, that government agencies undertake training in evaluation of performance monitoring.**

Recommendation 10

That performance benchmarks be determined in collaboration and consultation with government, service providers and welfare users.

² Auditor General, Western Australia. *A Means to an End. Contracting Not-For-Profit Organisations for the Delivery of Community Services*, Report No. 3, June 2000. p. 38.

Recommendation 11

The Committee recommends that contracting agencies should ensure that service agreements/contracts contain, at the very least, the following explicit statements:

- **the parties to the agreement;**
- **the purpose of the agreement, in particular, the objectives, outcomes and outputs, together with definitions of the concepts;**
- **the specific duration of the agreement;**
- **the price to be paid for the specific outputs and outcomes and variation procedure. If the contract price excludes the full cost of service provision, the government agency should make reference to that fact and specify that the NFPO is expected to contribute to the cost of provision of the service. The full amount of the contribution should be specified in the service agreement;**
- **method, time and amount of payments;**
- **performance measures relating to effectiveness and efficiency;**
- **respective parties' accountability requirements, together with details by way of schedules;**
- **insurance;**
- **penalties and rewards for performance below or above agreed standards. Consideration should be given to the appropriateness of rewards/incentives where services providers exceed standards;**
- **dispute resolution; and**
- **termination of agreement with particulars of circumstances justifying termination.**

Recommendation 12

The Committee recommends that government agencies establish explicit service procedures to ensure that:

- (a) staff of government agencies are appropriately skilled, in particular, in the area of tender preparation and contract management;**
- (b) tender documents are prepared and finalised within a specified period;**
- (c) constructive working relationships are initiated and maintained between government agencies and NFPO service providers in order to achieve the full benefits of contracting;**
- (d) mechanisms are in place to ensure that questions from tenderers are addressed prior to selection of the successful tenderer;**
- (e) there is an impartial and transparent assessment of tenders against clear selection criteria;**
- (g) the tender/contract process is deemed appropriate for the purchase of welfare services;**
- (h) contractual incentives are available to reward superior performance;**
- (i) efficient and effective performance indicators are utilised and clearly understood by government agencies and NFPOs after joint consultation; and**
- (j) there are specific time periods for the awarding of contracts to successful tenderers and for the notification of successful/unsuccessful tenderers.**

MINISTERIAL RESPONSE

Standing Order 277 (1) of the Standing Orders of the Legislative Assembly states that:

A report may include a direction that a Minister in the Assembly is required within not more than three months, or at the earliest opportunity after that time if the Assembly is adjourned or in recess, to report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the committee.

Accordingly, the Public Accounts Committee directs the Premier and Treasurer, the Minister Assisting the Treasurer and the Minister for Family and Children's Services to respond to the Committee's recommendations.

CHAPTER ONE

INTRODUCTION

BACKGROUND TO THE INQUIRY

The impetus for this inquiry was the recognition that with the implementation of National Competition Policy (NCP) in Western Australia, there had been a dramatic shift in the outsourcing of welfare services to not-for-profit organisations (NFPOs) and a substantial burden placed on these organisations to meet contracting and accountability mechanisms. This burden prompted public concern by organisations such as the Western Australian Council of Social Service Inc. (WACOSS) and Anglicare WA, who were concerned that their very limited resources were having to be directed at “red tape” requirements rather than the provision of services.

TERMS OF REFERENCE

The terms of reference for this inquiry were adopted by the Committee on 27 July 1999 and state that the Public Accounts Committee will undertake this inquiry to inform the Parliament about the impact of compliance and other accountability requirements on not-for-profit organisations that provide social and community services funded by Western Australian State Government agencies. Minor amendments were made to the wording of the terms of reference on 15 September 1999.

The terms of reference associated with this inquiry related to the Committee examining, but not limiting itself to:

- the administrative and cost impact of competitive tendering and reporting requirements on not-for-profit organisations;
- the extent to which competitive tendering and compliance issues affect the service efficiency and effectiveness of not-for-profit organisations; and
- alternative systems of managing social and community services and accountability which involve not-for-profit organisations, with a view to identifying a best practice model for Western Australia.

During the course of the inquiry, the Committee considered that the last of these terms of reference, relating to the formulation of a model for Western Australia, was not within the scope of the Committee’s role and therefore this was not pursued.

SUBMISSIONS

The Committee advertised widely and received written submissions from a range of organisations (Appendix 1). Despite many requests by the Committee and early assurances that a submission would be forthcoming, the Western Australian Council of Social Service Inc. (WACOSS) did not forward a submission to the Committee.

HEARING

The Committee held a public hearing with the Auditor General (AG) in which various aspects of the AG's report, *A Means to an End. Contracting Not-for-profit Organisations for the Delivery of Community Services*, Report No. 3, June 2000, was discussed.

CHAPTER TWO

NOT-FOR-PROFIT ORGANISATIONS

BACKGROUND

Estimates of National social and community services delivered by community service organisations number approximately 11 000, with total combined annual expenditure of \$4.8 billion in 1993-94.³ A 1995 report by the Industry Commission⁴ indicated that the majority of funded organisations receive less than \$100 000 annually, with the bulk of funding being allocated to NFPOs.

For the 1995-96 financial year, estimated total expenditure on welfare services amounted to \$8.9 billion⁵, which increased to \$10.9 billion⁶ (a 22% increase) for the 1997-98 financial year. In the 1997-98 financial year, 64.2 per cent (\$7 billion) of welfare services were funded by governments, 24.5 percent (\$2.7 billion) by service users and 11.3 per cent by NFPOs (\$1.23 billion)⁷ compared with \$5.8 billion, \$2.2 billion and \$0.9 billion respectively for the 1995-96 financial year.⁸

Statistically, NFPOs appear to have increased their funding contribution by \$0.33 billion over the financial periods 1995-96 to 1997-98. The inference to be drawn from this increase is that NFPOs are possibly paying more because of the increased cost of accountability, or as a result of inadequate funding levels provided by government agencies to NFPOs.

Western Australia is dependent upon more than 2000 NFPOs to deliver a wide spectrum of community welfare services to the general public which include, *inter alia*, emergency accommodation, family and children services, employment and advocacy services. The State government's expenditure amounted to \$441 million or \$250 per capita for the 1997-98 financial year.⁹

Changes in the way social and community services are delivered is partly a reflection of national and international trends towards public sector reform. In line with the Council of Australian Governments' (CoAG) adoption of the Himler Report on NCP (1994), the Industry Commission's examination of *Charitable Organisations* (1995) and *Competitive Tendering and Contracting by Public Sector Agencies* (1995) together with national micro-economic reform, greater emphasis has been placed on efficiency, effectiveness and accountability for government expenditure.¹⁰

³ Industry Commission Report (1995). *Charitable Organisations in Australia*, p. xvii.

⁴ Industry Commission (1995). *Competitive Tendering and Contracting by Public Sector Agencies*, Draft Report. Canberra : AGPS.

⁵ House of Representatives Standing Committee on Family and Community Affairs. *What Price Competition? A Report on the Competitive Tendering of Welfare Service Delivery*, Parliament of Australia, June 1998. p. 18.

⁶ Auditor General, Western Australia, op. cit., p. 5.

⁷ *ibid.*

⁸ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 18.

⁹ Auditor General, Western Australia, op. cit., p. 5.

¹⁰ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. xi.

A key development in Western Australia has been an increased use of market-type mechanisms rather than grants, to fund and administer welfare services delivery (refer to Chapter Three for a more detailed discussion). These mechanisms include:

- Competitive tendering.
- Contracting and outsourcing.
- Output-based funding.
- User pays.
- Benchmarking, quality assurance, etc.

The Australian Council of Social Service (ACOSS) acknowledged the view of governments that contracting should result in the attainment of the following goals:

- best practice in service delivery and management;
- increased transparency in accountability;
- flexibility in meeting consumer needs; and
- improved risk management and value for money.¹¹

The expansion of contracting/competitive tendering into core government services (for example, prison management and hospital services) has resulted in a redefining of relationships and responsibilities between government agencies and service providers or NFPOs. This process raises issues of accountability, equity and distribution impacts of contracting and the suitability of contracting or competitive tendering for specific welfare services

DEFINING NOT-FOR-PROFIT ORGANISATIONS

Determining whether an organisation is a NFPO is problematic given the diversity of entities that could potentially fit under the not-for-profit classification. In some instances, NFPOs actually make a profit. For example, a museum gift shop may make a profit, but those profits represent just one source of funding for the NFPO (the museum) to provide its goods or services. Unlike profit-making entities, the NFPO in the case of the museum, does not distribute the profits made to members or an owner.¹²

The International Classification of Non-profit Organisations (ICNPO) classifies NFPOs into 12 major activity groups and 24 subgroups which are listed in Appendix 1.

THE DEVELOPMENT OF THE SECTOR

NFPOs have existed in Australia since the early 19th century and serve to provide welfare and community services. Many of the original NFPOs were church-based or established by charitable philanthropists and were initially reliant on subscriptions and other donations.¹³

¹¹ Auditor General, Western Australia, op. cit., p. 12.

¹² Flynn, S., Leo, K. and Addison, P. (2000). *Financial reporting by not-for-profit entities*. CPA Australia. External Reporting Centre of Excellence. p. 3.

¹³ Australian Council of Social Service (1997). *Keeping sight of the goal. The limits of contracts and competition in community services*, Paper 92, p. 14.

Since the early development of the NFP sector, the number and diversity of NFPOs has increased substantially, mostly as a result of the increase in population and factors such as:

- changes in social movements (e.g, women's refugees and child care);
- demographic changes (e.g. the increasing elderly population);
- changes in perceptions about the role of government in welfare and social programs;
- consumer rights gaining importance in the management and delivery of services; and
- increasing concerns relating to the impact of institutional forms of care in areas such as mental healthy, aged care and disability.¹⁴

Today, welfare services encompass services such as aged care, disability services, community, individual and family services, as well as child care and employment programs.¹⁵

SOURCES OF FUNDING FOR NOT-FOR-PROFIT ORGANISATIONS

NFPOs generally have a range of funding sources including:

- private philanthropy – e.g. gifts from individuals and companies;
- public sector payments – e.g. government grants, contracts for services and third party payments from social security and health programmes; and
- fees and charges – e.g. from selling goods and services.

In 1999, Salamon and Anheier¹⁶ reported the findings of a study, *The Johns Hopkins Comparative Non-profit Sector Project*, which examined the not-for-profit sector in 22 countries under the classifications of Western Europe, Other Developed countries (including Australia), Central and Eastern Europe and Latin America. This study indicated that, on average, the majority (48%) of funding for NFPOs is derived from private fees and payments. In Australia, this funded accounted for 62.5% of funding.¹⁷

COUNCILS OF SOCIAL SERVICE

ACOSS is the national peak council of the community welfare sector and works toward the elimination of poverty and the achievement of a more just society by providing a voice to the needs of low income and disadvantaged people.¹⁸

In addition to the national body, each of the States and Territories have Councils of Social Service (COSSs), which, whilst independent from each other, are all members of ACOSS.¹⁹ In Western Australia, the COSS is known as the Western Australian Council of Social Service Inc. (WACOSS).

¹⁴ Australian Council of Social Service (1997), op. cit., p. 14.

¹⁵ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 17.

¹⁶ Salamon, L.M. and Anheier, H.K. (1999). *The emerging sector revisited*. Baltimore: Centre for Civil Society Studies, Institute for Policy Studies, the Johns Hopkins University.

¹⁷ Flynn, *et al.*, (2000), op. cit., p. 1.

¹⁸ Australian Council of Social Service (1997), op cit., p. 10.

¹⁹ *ibid.*

CONTRIBUTION OF THE NOT-FOR-PROFIT SECTOR TO COMMUNITY WELFARE

In Australia, the NFP sector makes a significant contribution to the community in terms of social and economic development through:

- being the major provider of community services, especially for those on low incomes;
- providing support to individuals and families;
- strengthening communities by building social cohesion, enhancing equity and providing a voice to disadvantaged groups;
- mobilising voluntary efforts, community networks, participation and philanthropy; and
- providing the central mechanisms for building and strengthening “social capital”, on which effective, supportive and connected communities are created and maintained.²⁰

REFORMS IN COMMUNITY SERVICES

For most of the last decade, community services in Australia have been the subject of a “reform agenda”, resulting in new or altered arrangements for planning, financing and delivering community services.

Occurring at all levels of government – federal, state and local – and in all policy and program areas, the major drivers of the change process include:

- NCP;
- a preference for “market models”, even if they have to be deliberately created;
- a preference for “smaller” government, with a redefinition of its “core business”;
- a desire to change the mix of providers and to open the newly-created markets to new players;
- a desire to restrain or reduce public expenditure;
- shifting influences in the social policy process;
- a refocusing of the system towards client and community needs;
- managing for “outcomes”; and
- a new emphasis on “capacity-building” for communities.²¹

NATIONAL COMPETITION POLICY

In 1992, CoAG established an independent committee of inquiry into NCP with the aim of addressing problems that may arise from a fragmented State-by-State approach to reform. Primarily, NCP has sought to address the declining performance of the Australian economy, attributed largely to the protective nature of the marketplace.²² The aim of NCP is to encourage greater competition, particularly in markets where little competition has existed and to create incentives for improved economic performance through higher productivity, lower prices and improved quality.

²⁰ Australian Council of Social Service (1999). *Common cause: relationships and reforms in community services*. Paper 102, p. 4.

²¹ *ibid.*, pp. 5-6.

²² Hilmer, F., Rayner, M. and Taperell, G. (1993). *The Independent Committee of Inquiry into a National Competition Policy*, National Competition Policy, AGPS, Canberra.

Impact of NCP on Community Services

When originally introduced, NCP was not intended to apply to community services or other non-business activities of the public sector.²³ Despite this, many view NCP as the single driver of reforms in community services. In reality, while many of the reforms facing community services are indirectly linked to NCP, few of these reforms are actually required by it.²⁴

The three main areas of NCP that impact directly on community services are:

1. The program of review of commonwealth and state/territory legislation.
2. Changes to the *Trade Practices Act 1974*.
3. The application of NCP principles to local government by state and territory governments.

In addition, some indirect impacts of NCP on community services arise from the broad application of NCP policies to the community services sector, despite there being clear intentions to quarantine “non-business” activities of governments.²⁵

SHORTCOMINGS OF THE REFORM PROCESS

In its 1999 report, ACOSS identified a number of shortcomings and challenges in the way in which the reform of the community services in Australia was being approached and implemented, including:

- polarisation of debate about the issues among some stakeholders, resulting in a hindrance to the identification of common goals and cooperation;
- tensions and contradictions in the changing role of the community welfare sector;
- a range of negative impacts which governments rarely acknowledge as a legitimate cause for concern;
- a lack of evidence on which to base decisions about changes and new models;
- a significant change in the nature of the relationship between governments and community welfare organisation, which is contributing to the negative impacts on individuals, families and communities;
- a focus on means not ends, resulting in administrative levers such as new funding mechanisms and tighter contracts becoming ends in themselves; and
- insufficient focus on how Australia will sustain a strong, effective community services system into the future.²⁶

²³ Australian Council of Social Service (1999), op. cit., p. 16.

²⁴ ibid., p. 15.

²⁵ ibid., pp. 16-17.

²⁶ ibid., pp. 6-7.

CHAPTER THREE

ANALYSIS OF THE IMPACT OF CONTRACTING OUT ON NOT-FOR-PROFIT ORGANISATIONS

CONTRACTING OUT/COMPETITIVE TENDERING - SOCIAL OR ECONOMIC EFFICIENCY?

NCP promotes the ideal that increased productivity and innovation is achievable through competitive tendering.

While economic efficiency may be realised through competitive tendering by equating increased outputs to reduced inputs expressed in dollar terms as part of the costs of production, it does not necessarily follow that the welfare sector will benefit from the process. The economic rationale tends to ignore or cloud social issues and an increase in economic efficiency may result in negative effects on social issues which need to be balanced, hence the public interest criterion.

Many NFPOs may feel uncomfortable with the change-over from grant funding to competitive arrangements particularly if competitive tendering emphasises economic efficiencies at the expense of social goals such as quality of social welfare services and accountability.

Perceived negative and positive effects of contracting out impact upon consumers of welfare services and the need is to identify and incorporate such effects into future strategies for positive action, failing which, the negative or adverse effects may impact on community users of NFPO agencies in the following manner:

- reduced collaboration and information sharing;
- reduced choice and access to welfare services as a result of a decline in the number of small agencies and stricter eligibility criteria. Regional areas will be particularly affected in the sense of community members experiencing feelings of isolation and alienation from the decision making process; and
- increased agency administration costs with the result that less money is available for client services.

This chapter focuses on researching and analysing various sources of reference with respect to contracting out, with the emphasis on dialogue between government (purchaser) and service provider (NFPO), identification of common issues and recommendations relevant to their particular situation.

ACCOUNTABILITY

The relationship between government agency and NFPOs has altered. In the past, NFPOs sought funding from government in the form of subsidies or grants to meet the needs of the community. The Government would grant funds provided it regarded those needs to be a priority. As service providers, they had to ensure that public funds were spent on the efficient and effective provision of welfare services.

In 1995, the Western Australian Government replaced the submission-based funding system with the government agency assuming the role of purchaser and the NFPO as provider of the services (effectively, a generic funding model based on a modified form of service purchasing). The present system is based on contracts and implemented either through competitive tendering or a system of selected or “preferred” providers.

As described previously (Chapter two), NFPOs obtain their funding from a variety of sources and the public, as donors, volunteers and taxpayers, are entitled to effective systems of accountability. The Industry Commission, in their report on charitable organisations, pointed out that:

Accountability relies upon the provision of up-to-date, accurate and relevant information relating to the operations and finances of organisation. Even when potential donors do not themselves seek information on individual organisation, the media may well do so. Better informed media coverage of the sector has the potential to improve community awareness and decisions.²⁷

Accountability refers to:

... a defined capacity by some person or institution to call an authority into account, in the sense of having to answer for its conduct; a responsible authority or person with a duty to answer and explain such conduct; an agreed language and criteria for judgement; and upward, downward, and outward reporting or answering processes.²⁸

GRANTS VERSUS CONTRACTS - THE KEY DIFFERENCES

The tendering process is one that is used by governments to purchase services. Tendering itself is the mechanism by which a service provider is chosen, with a contract subsequently entered into once the tendering process is complete.²⁹

Under the grant system, community service agencies would seek funding from the Government to subsidise service provision and the Government would then grant funds if it deemed those services to be a priority.³⁰

Most community organisations recognise that there has been a shift from arrangements based on grants to those relying more on the tender/contract system. Whilst this shift is often expressed as a shift from funding agreements to that of more legally binding contracts, it can be argued that in

²⁷ Industry Commission Report (1995), op. cit., p. 201

²⁸ Doern, G.B. (1993), op. cit., p. 4.

²⁹ Perkins, M. (1999). *Shifting Ground. Competition Tendering in Community Services*. Council of Social Service of New South Wales, p. 34.

³⁰ Western Australian Council of Social Services Inc. (1996). *Coping with Contracting - a Resource Pack for Non-Government Community Service Organisations*, 3rd Edition. p. 6.

most cases, the documentation that supports a grant would have key elements that can be legally enforced as a contract.³¹

The key differences between the grant and contract systems are illustrated in Table A and should be viewed not as discrete models, but as two ends of a continuum, with many funding arrangements fitting somewhere between the two.³²

TABLE A
Grants and Contracts - the Key Differences

GRANT SYSTEM	CONTRACT SYSTEM
Funds to support work of NFPO.	Funds to purchase specified services as defined by the government purchaser.
Grant based on budget with surplus accruing to funder.	NFPO cost services in the form of a fixed price contract.
Accountability based on audited accounts with minimal performance measurement and monitoring.	Accountability emphasises performance measurement and monitoring with less emphasis on financial accountability.
Grant infers no legal responsibilities.	Contract involves exchange of money for services and the contract is mutually binding on both parties.
Period of grant usually 12 months.	Contracts may be for any period of time.
Grant is usually provided on the basis of a submission.	Contract usually awarded in consequence of a tendering process.

Clearly, from this table, existing funding arrangements exhibit features of both a grant and a tender/contract system.³³ The different systems in use reflect the fact that no one model exists for the funding of NFPOs.

PURCHASER/PROVIDER MODEL

In a marketised system, the separation of the roles of purchaser and provider are implicit. As a result of this separation, governments determine the needs, set priorities and specify the outcomes and outputs of services provided. As purchasers, government then contracts organisations to provide the services.³⁴

Importantly, the purchaser/provider model diminishes the role community organisations have played in identifying community needs and in developing strategies to address that need. As a

³¹ Perkins, M. (1999), op. cit., pp. 36-37.

³² Western Australian Council of Social Services Inc. (1996), op. cit., p. 5.

³³ Perkins, M. (1999), op. cit., pp. 34-36.

³⁴ *ibid.*, p. 14.

result, initiative and innovation in the community sector may be constrained and the capacity of NFPOs to assess and respond flexibly to the needs of individuals and communities may be limited.³⁵ As stated by WACOSS:

A key aspect of the purchaser-provider relationship is that the purchaser can buy services from any one of a number of potential providers.

. . . Another key aspect of the new relationship is that the purchaser will define the service that it wishes to purchase . . . The purchaser may, however, decide to seek advice from some providers to ensure that the best options are being purchased.³⁶

Table B³⁷ provides a summary of some of the key differences of the purchaser-provider model in the new relationship:

TABLE B
Purchaser and Provider - the Key Differences

THE PURCHASER (GOVERNMENT DEPARTMENT)	THE PROVIDER (NOT-FOR-PROFIT ORGANISATION)
Defines priority needs through consultation and government processes.	Tenders/bids for service to be delivered.
Decides the process for purchasing services.	Assesses and determines community needs and designs services to meet needs.
Determines specific service and formulates service specifications to cater for priority needs.	Demonstrates capacity to provide service as part of the tendering process based on historical performance.
Determines best provider of service.	Provides service in line with service specifications.
Monitors service provider to ensure service specifications and performance targets are being met.	Collects data on service performance and reports to purchaser.
Evaluates services purchased.	Monitors itself and evaluates its work.

Within the context of accountability, State Governments sought to remodel the way in which social and community services were funded. According to Rogan *et al.*, (1997)³⁸, the remodelling

³⁵ Perkins, M. (1999), op. cit., pp. 14-15.

³⁶ Western Australian Council of Social Services Inc. (1996), op. cit., p. 6.

³⁷ *ibid.*, p. 8.

³⁸ Rogan, L., Johnson, C. and Morgan, E. (1997). *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department.

in the allocation of funds to welfare services was characterised by a number of important changes, including the following:

- development of frameworks for prioritising and targeting the allocation of resources based on population distribution;
- increased use of qualitative and quantitative planning data in the allocation of funds;
- introduction of tighter specification of the services being funded;
- classification of application requirements, reporting, data collection and accountability; and
- development of standards and accreditation systems as a way of evaluating service quality.

Finding 1

The allocation of resources is currently based on population distribution rather than on a needs basis, which results in significant disadvantages for regional areas.

Recommendation 1

That the allocation of resources be primarily needs based.

The introduction of the purchaser-provider model has led to a redefinition of the roles and responsibilities of both the funding agency and the service provider and has raised questions as to who is accountable, to whom and for what.

Essentially, accountability refers to the acceptance of responsibility for agreed outcomes. The commitment is in the public interest and involves public trust. A commitment to accountability should also serve as a constructive tool for organisational development, enhancing management practices, self-evaluation and strategic planning.

The application of accountability involves three elements³⁹:

- taking into account public trust in the exercise of responsibilities;
- providing detailed information relative to the carrying out of responsibilities and achievement of outcomes; and
- accepting responsibility for outcomes.

³⁹ Panel on Accountability and Governance in the Voluntary Sector (1999). *Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector*, Final Report Panel on Accountability and Governance in the Voluntary Sector, pp. 11-12.

ACCOUNTABILITY TO WHOM?

NFPOs are accountable to clients, volunteers, staff, community, donors and government. Different accountability requirements relate to the different segments within the system.

ACCOUNTABILITY FOR WHAT?

As self-governing organisations, NFPOs hold a public trust relative to their mission/objective and utilise funds to achieve their goal/mission. In consequence thereof, they are responsible for their actions and the effectiveness of such actions.

Minimum accountability relates to:

- establishment of a relevant and appropriate mission;
- responsible fund management;
- effective organisational management of structures and processes relative to operations and activities; and
- outputs, outcomes, efficiency and effectiveness (quality) and range of services.

ACCOUNTABILITY BY WHAT MEANS?

Some NFPOs are expected to utilise accountability methods as required by the funding agency (purchaser) while others have their own self-regulating measures.⁴⁰ It has been suggested that as service providers have devoted considerable financial resources to implementing accountability measures, the more pro-active suppliers of services would have recognised and acted upon their need to be responsible managers of people, guardians of funds and responsible leaders within their community. Such providers would have undertaken these initiatives to prepare themselves for the new reality where high standards of accountability are expected and closely scrutinised.

Views⁴¹ expressed as to the effect of increased competitive tendering on accountability focus primarily on the extent to which accountability mechanisms are either being eroded or enhanced. Key factors tending to erode accountability by the implementation of competitive tendering include, *inter alia*:

- the view that contracting out provides the means for some government officers to regard the process as tantamount to an abrogation of the risk;
- confusion as to the responsible parties for ensuring service standards;
- that accountability could be eroded given the extent to which Commonwealth-funded welfare services are delivered to clients through or in conjunction with the States;
- contract price and conditions for social and community services are set unilaterally by the purchaser (government);
- that there are differences between funding agreements with State/Territory governments and the Commonwealth; and
- funding agreements differ between States and the Commonwealth.

⁴⁰ Industry Commission Report (1995), op. cit., pp. 201-202.

⁴¹ House of Representatives Standing Committee on Family and Community Affairs, op. cit., pp. 23-24.

In contrast, other views⁴² suggest that competitive tendering or contracting out actually enhances accountability in that it:

- places the onus on the government agency to specify the service and the precise allocation of responsibilities between the government agency and NFPO in respect of the service to be delivered;
- prescribes the criteria upon which NFPOs performance is to be measured and monitored;
- promotes and provides choice between various service providers; and
- reduces the potential for conflict of interest in respect of responsibilities where service delivery and accountability are the responsibility of the same agency. Thus separating delivery from the other elements has the potential to clarify roles and enables the public sector to concentrate on policy and accountability.

Irrespective of the divergent views expressed in respect of accountability, the key issue relates to the implementation of accountability or the policy of accountability by government agencies. Poor implementation strategies as in the case of inconsistent tender requirements tends to increase administrative costs, which is exacerbated by reduced funding levels with corresponding increases in demand for services (refer to section on “Conclusion-unravelling the effects” for detail).

WHO SHOULD ULTIMATELY BE ACCOUNTABLE?

It can be argued that accountability rests with the purchaser or government agency and not the provider or NFPO. The provider should account, or be responsible for, its use of funds in the provision of services as part of its obligations in terms of the contract between purchaser and provider, but not be ultimately accountable.

Family and Children’s Services (FCS) support this argument by stating in the preamble to its service agreements that:

. . . The department in turn recognises its responsibility to adhere to an equitable and effective funding process and to implement appropriate accountability measures required by state legislation.⁴³

Similarly, Sussex Street Community Law Services Inc. (“Sussex”) stated that:

Sussex Street, like anybody else, is quite happy to report and be accountable as part of its commitment to providing efficient and effective services.⁴⁴

The issue of accountability, in particular the view expressed below, that some senior government officers perceive contracting out as a means of delegating/abrogating the risk, thereby making the provider responsible for accountability, has not been well received by some community service providers:

. . . the guiding principle of accountability is that it is a two way process . . . I am sick of the sector being self-effacing, and self-flagellating about accountability. The reality is we are accountable in a face to face situation with our clients, we are accountable to professional ethics and our professional bodies, we are accountable to our organisations and after that we

⁴² House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 24.

⁴³ Submission from Family and Children’s Services to the PAC, 7 April 2000, Attachment 1, p. 2.

⁴⁴ Submission from Sussex Street Community Law Services Inc., to the PAC, 30 June 2000, p. 6.

are accountable as we know, to the various government bureaucracies . . . this of course contrasts sharply with government's accountability to us.

. . . there is an evident lack of accountability structures within government. What is good for the goose is good for the gander. Community organisations need to remind governments and bureaucracies of their accountabilities.

Accountability should not flow just one way; governments need to be accountable to community organisation.⁴⁵

The Committee supports the view that government and government agencies remain accountable for the actual delivery of the service, the standards of performance and the overall costs. The Ministers, through their portfolio departments, are accountable for the delivery of government initiatives and the outcomes produced.⁴⁶

Finding 2

Service providers are responsible for the *use* of government funding in their provision of services, while government agencies remain primarily accountable for the actual delivery of those services, standards of performance and the overall costs.

Recommendation 2

The Committee recommends that:

- (a) the government agency remains totally accountable for the efficient and effective delivery of services, irrespective of whether social and community services are provided to the community by government agencies or not-for-profit organisations; and**
- (b) service agreements include definitions and a clear delineation of the accountabilities that government agencies have towards both NFPOs and community users.**

⁴⁵ Queensland Council of Social Service (1999). *Achieving Effective Partnership Between Government and Non-Government Community Organisations*, Position Paper, p. 25.

⁴⁶ House of Representatives Standing Committee on Family and Community Affairs, op. cit. p. 25.

IMPACTS ON THE COST OF SERVICES

INTRODUCTION

The Committee has not found any empirical studies in Australia that have specifically considered the impacts of contracting out social and community services. Various studies have reported significant cost savings within State and Local Government, with particular reference to road maintenance, cleaning and refuse collection.⁴⁷ Criticisms levelled at studies claiming significant savings without any detrimental effect to quality of services suggests, *inter alia*, that the authors have excluded key variables⁴⁸ or excluded costs of redundancies and the cost of the tendering process.

COST IMPACTS OF COMPETITIVE TENDERING

The Auditor General of Western Australia (AG) reported⁴⁹ that many NFPOs claimed significant administrative and cost burdens associated with contracting for the delivery of social and community services. As part of the examination undertaken by the AG, NFPOs were asked to estimate the total financial cost of meeting accountability requirements in the light of their current funding requirements. Estimates ranged between less than 1% and more than 30%, with an average of 3.5% of total budget.

While the AG acknowledged that NFPOs were of the view that workloads and costs had increased as a result of the tendering process without any proportionate increase in government funding, the AG was of the view that an average of 3.5% of an NFPO's total budget for accountability purposes did not appear to be excessive.

In evidence to the Committee, the AG was of the view that feasibility and practicality considerations dictated the use of estimates supplied by NFPOs. For the purposes of the objectives and scope of the examination, the AG considered budget estimates to be sufficiently consistent and reliable enough for its purposes.⁵⁰

While the AG may have valid technical and practical reasons for not conducting the examination based on actual costs and that estimates were regarded as reliable enough to reach firm conclusions, the Committee is concerned that it is not in a position to report to Parliament on the actual total cost impact of NFPOs meeting accountability requirements. Lack of actual costs associated with contracting out for the delivery of services puts in doubt the accuracy of service delivery cost estimates that may be submitted by NFPOs.

The general concern with the lack of accuracy in service delivery costs tendered by NFPOs is highlighted by the fact that FCS does not have or hold any information on the cost impact of competitive tendering for NFPOs. In addition, NFPOs have not provided any information on the costs they have incurred in response to FCS's advertised tenders.⁵¹

The Committee has strong concerns that the cost impact of competitive tendering on, or contracting out, service delivery has been based on inconclusive evidence. There is a need

⁴⁷ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 30.

⁴⁸ Evatt Research Centre (1990). *Breach of Contract - Privatisation and the Management of Australian Local Government*, Sydney: Pluto Press. Evatt Research Centre.

⁴⁹ Auditor General, Western Australia, op. cit., p. 31.

⁵⁰ Transcript of Evidence, 18 September 2000, p. 11.

⁵¹ Submission from Family and Children's Services, p. 3.

for an independent body to undertake a formal audit of NFPOs and government agencies into the impact of their respective actual total financial costs and accountability requirements on social and community service delivery.

Finding 3

The cost impact of competitive tendering on social and community service delivery is based on inconclusive evidence.

Recommendation 3

The Committee recommends that:

- (a) NFPOs responsible for the use of funding in delivering social and community services be audited on an actual cost basis by an independent body; and**
- (b) government agencies accountable for the delivery of social and community services by NFPOs be audited on an actual cost basis by an independent body.**

COST IMPACTS ON SERVICE PROVIDERS

Issues which have tended to increase costs for the delivery of services by NFPOs and which were the subject of criticism related to:

- lack of skills and high turnover rate of public sector contract managers;
- extended delays in finalising contracts and the associated cost burden thereof;
- lack of definition of key attributes of service being purchased (service specifications); and
- scope of the purchase price.

Lack of Skills and High Turnover Rate of Public Sector Contract Managers

Contract managers are responsible for ensuring that the parties adhere to the terms and conditions of the contract and that the service is delivered in accordance with the contract.

The AG, in his report,⁵² commented that the skills of contract managers were the subject of some criticism and quoted one NFPO as stating:

All Department Y staff involved (in our contract) have been ill-equipped for the process – to the extent of not being informed of the content of the specifications/tender document; re-advertising when they were not satisfied with those who tendered correctly, etc. Tender panels have not always been composed of adequately trained personnel (especially in service delivery/non-government service delivery/costing of services). Advertised funding levels have had to be revised upwards after allocation of tenders. Grievance mechanisms are not advertised. The process for deciding what funding will be advertised /tendered and what is the internal allocation process (that organisations are not even informed is available) makes it all seem rather farcical. “Direct transfer” of services by Department Y to NFPO’s has been unaccountable, and where the transfer was to improve their viability, seems destined to do the absolute reverse.

In its submission to the Committee, Sussex⁵³ criticised one government agency in the following manner:

. . . is now handling tenders in the human services sector (eg MFT). While they have a history of purchasing buildings, car fleets, consultancies etc - they do not have a history/awareness of or developed expertise in the area of purchasing services for disadvantaged clients. This became quite obvious in the negotiations and tender process of the tenancy programme. They lacked understanding and awareness in relation to dealing with not for profits - ie there are other motivations other than profit - eg provision of services to disadvantaged people. Furthermore the tender was fixed price and it remains unclear as to what criteria were used to include some agencies and not others. This led to the bizarre situation of an agency providing housing to people also being funded to operate a tenancy service (apparently the question of a conflict of interests was not considered).

The issue of turnover of contract managers was of major concern to NFPOs. The AG reported⁵⁴ that certain NFPOs maintained that they had four or more different contract managers over a two year span. It appears that one particular government agency was singled out as having particular problems in that regard. In addition, NFPOs indicated that it took on average a period of between six and twelve months for a contract manager to establish a working relationship with and gain an understanding of the NFPOs operations.

Extended Delays in Finalising Contracts and Associated Cost Burden Thereof

According to many NFPOs, approximately 40% of government agencies (purchaser) experienced difficulties in finalising tender decisions in a timely manner. The results of a survey conducted by the AG and covering 300 NFPOs, indicated that while NFPOs were expected to submit tenders within an allotted time frame, it was not uncommon for government agencies to take up to six months or longer before notifying NFPOs of the tender decision.⁵⁵

In contrast to the claims of NFPOs, seven government agencies indicated that various practices were utilised in notifying tenderers of the purchaser’s decision. FCS’s procedure is to specify a maximum period of three months from date of closure of tender to notification of decision. In

⁵² Auditor General, Western Australia, op. cit., p. 27.

⁵³ Submission from Sussex, op. cit., p.12.

⁵⁴ Auditor General, Western Australia, op. cit., p. 27.

⁵⁵ *ibid.*, p. 23.

contrast, the Women's Policy Office undertakes to complete the evaluation and advise tenderers as soon as possible.⁵⁶

Lack of Service Specifications

The AG reported⁵⁷ that all seven government purchasing agencies maintained that their contracts specified quantity, quality and timeliness of services. Of note, examination of seventeen contracts relative to the Health Department of Western Australia-Mental Health Division (MHD), revealed that apart from generic 'principles of service', less than half contained explicit quality standards for services being purchased.

Aspects of community services, indeed services of any nature, are intangible and difficult to qualify for purposes of serving as performance measures. Thus, difficulties are experienced in assessing the impact of contracting out/tendering, on standards of quality relative to social and community services.

The term 'quality' could be regarded as ambiguous in the sense that the term may refer to the satisfaction of community needs or to a service that is characterised by notions of flexibility, innovativeness and fairness. Difficulties relate to the assessment of community perceptions about the notion of 'acceptance' of quality.

There are diverse views about the impact of competitive tendering on the quality of social and community service delivery. Some government agencies argue that competitive tendering improves the quality of service delivery as the process lends itself to creating certainty through improved specifications and requisite outputs and outcomes. Furthermore, government agencies appear to focus on organisational guidelines and process monitoring rather than on the needs of clients, which is the purpose to the service.

It appears that many NFPOs regard competitive tendering and contracting out as having had a detrimental effect on the quality of services being offered to the welfare community. It was argued that excessive costs associated with tender preparation had a negative impact on the provision of services.⁵⁸

Sussex⁵⁹ described the situation in the following terms:

Talking about "best value for money" and "market testing" and similar terms. [What] Sussex Street would always argue is that our aim and intention is always to provide the best services for clients. In fact, Sussex Street would contend that quality of service provision to clients has always been a priority. Nonetheless, there is an inherent tension between quality services, quantity of service provision (including targets) and limited resourcing that needs to be acknowledged. Furthermore, the never ending quest for improvement is important but it must have some limit and it needs to be accepted that levels of resourcing is a real and important factor. The whole discussion of quality improvement and PSP- is problematic in that client demand for services is not met with adequate resources. The inherent tension in the triangular matrix outlined above warrants further consideration, consultation and debate.

Having said that Sussex Street would hope that services for clients are always effective. This agency would suggest that our work is always efficient and that the services we

⁵⁶ Auditor General, Western Australia, op. cit., p. 23.

⁵⁷ *ibid.*, p. 19.

⁵⁸ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 27.

⁵⁹ Submission from Sussex, op. cit., p. 8.

provide, for example, are always improving. It is reasonable to say that, over the last few years, Sussex Street can clearly demonstrate that we are aiming to improve our services in a whole range of ways with service standards, policy and procedure manuals, client complaint mechanisms, improved information systems and the like. But in saying all that, at the same time, that all soaks up time and other resources.

It is also not at all clear as to how is *[sic]* quality improvement is measurable.

Another aspect of competitive tendering threatening quality of service delivery relates to lack of continuity of service delivery in that the practice of contracts changing hands could disrupt service arrangements and clients, particularly in the provision of services to families, the aged and the sick.

The AG reported that several NFPOs stated that both government agencies and NFPOs needed to further develop their skills in service specifications, or as one NFPO stated:

There is often confusion and duplication between outputs, outcomes and measures in service agreements. It is an area which needs further development and competence in both government negotiators and community based service providers.⁶⁰

The Committee is of the view that there is no substantive evidence to support the diversity of opinions as to the impact of competitive tendering on quality of service delivery. With regard to Committee recommendations in respect of lack of skills, delays in finalising contracts, service specifications and scope of purchase price, the reader is referred to Chapter Five in this Report.

Finding 4

There is no substantive evidence to support the view that competitive tendering is having a detrimental effect/positive influence on the quality of social and community service delivery.

Recommendation 4

That government agencies , in terms of competitive tendering on the quality of service delivery:

- (a) fund independent empirical studies; and**
- (b) conduct the research such that it encompasses the input of government agencies, service providers, recipients of service delivery and other relevant stakeholders.**

⁶⁰ Auditor General, Western Australia, op. cit., p. 20.

Scope of Purchase Price

It appears that numerous methods have been adopted to fund NFPO's administrative, management and training costs. Some agencies included these costs in their service agreements while others excluded such costs. Survey comments to the AG⁶¹ suggested that certain government agencies had an expectation that NFPOs would include those costs in their tender price, while other government agencies included such costs as an additional cost to the service price.

FCS⁶² described the process in the following terms:

The department operates through a fixed price contract system for the provision of social welfare services. Organisations which present an offer to provide a service include a range of administrative type costs within their budget calculations. The department does not specify amounts for these costs.

Survey comments to the AG indicated that over 70% of NFPOs reported that the cost of delivering social and community services exceeded funding.⁶³ This seems to suggest that:

- NFPOs are not including all cost items in the tender price.
- Government agencies are not including such costs as an additional cost to service funding.
- NFPOs have relied upon cost estimates as opposed to actual costs in their tender price with a corresponding shortfall in funding amount.
- NFPOs have not calculated or do not have the expertise to calculate either their estimated or actual service delivery costs and have excluded such costs from their tender bid.

It is clear from the AG's report and submissions received by the Committee that there is uncertainty about funding arrangements for administrative, management and training costs and that some form of policy is required. Such policy would promote consistency and uniformity in the application of funding principles. In addition, government agencies should be aware of the full value of the services that are being purchased including the value of unpaid contributions from volunteers and NFPOs funding activities which act to subsidise the cost of service delivery.

Finding 5

Government agencies and NFPOs appear uncertain about funding arrangements for administrative, management and training costs.

⁶¹ Auditor General, Western Australia, op. cit., p. 20.

⁶² Submission by Family and Children's Services, op. cit., p. 3.

⁶³ Auditor General, Western Australia, op. cit., p. 20.

Recommendation 5

That government agencies determine a funding policy specifying the manner in which administrative, management and training costs will be funded within existing contractual arrangements.

The cost impact on service providers was, *inter alia*, the subject of a comprehensive report by the House of Representatives Standing Committee on Family and Community Affairs. In that report⁶⁴, the Catholic Social Services of Victoria submitted that the costs of tender preparation and submission had resulted in increased administration and overhead costs, with the result that the organisation had a reduced ability to cater for community needs. The submission was expressed in the following manner:

The amount of time, expense and effort required in complying to the tendering process as well as monitoring and accounting for specific programs also leads to a reduction in the ability of agencies to respond to community needs. For smaller agencies these requirements represent a significant strain and divert resources that would otherwise be used in responding to community needs.⁶⁵

Support for this view was provided by the Melbourne Citymission to the House of Representatives Standing Committee on Family and Community Affairs in the following manner:

New tender arrangements have created additional costs to organisations not previously experienced. Agency resources have not been allocated in the past for this task. In order to tender, staff have worked in their own time, diverted resources from client services, engaged in extensive community networking and consultation, sought clarification on meaning and interpretation of tender documents and regularly sought to engage senior departmental officers on issues of process and policy. This has meant that many organisations like Melbourne Citymission have had to shift staff resources from direct client support to the task of preparing tender documentation. On average this costs the organisation ten thousand dollars per tender. These costs are not identified anywhere in the tender process or in the unit price. This is a considerable disadvantage to the organisation and has the potential to reduce service delivery in favour of administration tasks. At the same time the period of time between the submission of a tender and the announcement of successful agencies has been as long as six months. It appears that government departments have been ill prepared for the tender process and unclear as to how to process applications. Smaller agencies are at an even greater disadvantage as they do not have the infrastructure of the larger organisations.

On a number of occasions this agency has tendered for programs, then to be told on the eve of when the successful tender was to be advised, that no decision could be made and the program is to be retendered the next day. New tender documents have included specific aspects of our response to the original tender. The cost to retender is substantial, the impact on staff significant and the uncertainty facing clients should not be underestimated.⁶⁶

⁶⁴ House of Representatives Standing Committee on Family and Community Affairs, op. cit., pp. 33-34.

⁶⁵ *ibid.*

⁶⁶ *ibid.*

Of particular concern were the extended delays in finalising contracts and the associated cost burden to many organisations.

As was further stated by Melbourne Citymission in its submission:

I first met the department in January this year and we got a decision two weeks ago. We won the tender, but we tendered 10 months before. There are also alcohol and drug programs in the western suburbs of Melbourne and child protection programs. There are numerous examples, particularly in this State, where the tender process has been significantly delayed. In the area of offers for housing, the transitional housing programs have been delayed.⁶⁷

COST IMPACTS ON CONSUMERS

Submissions received by the Committee indicate that the tendering process increased costs for consumers.

Bloodwood Tree Association Inc.⁶⁸ described the cost impact on consumers in the following manner:

. . . [NFPOs] are expected by some funding bodies to deliver similar government or ex-government services at the same level, but with very much reduced cost. Our organisation has relatively low overheads, which have [been] seen to increase over the years through extensive reporting requirements by Government funding agencies. We have had to introduce an administrative charge of 10% gross to handle any project funding for unincorporated bodies or individuals because of the reporting and acquittal procedure.

The AG reported that survey responses indicated that one of the ways in which NFPOs managed funding shortfalls was by charging fees.⁶⁹

Sussex⁷⁰ argued that the increased overhead and administrative costs associated with reporting requirements added to the cost of providing services with a corresponding reduction in responding to clients needs:

For example, at Sussex Street Community Law Service we have nine funding sources, and they have different reporting requirements and this, in itself, puts enormous pressure on the agency and soaks up time and resources which, of course, could go to providing more, or more effective quality, services for clients.

The Committee notes that the general theme among NFPOs is to allege that increased costs have resulted in scarce resources being utilised in the tendering and reporting process to the detriment of community welfare needs. In almost all cases, NFPOs require increased funding to offset purported increases in costs without providing any evidence to substantiate such requests. Reliance on estimates to support an increase in funding is unacceptable.

⁶⁷ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 34.

⁶⁸ Submission from the Bloodwood Tree Association to the PAC, 4 May 2000, p. 3.

⁶⁹ Auditor General, Western Australia, op. cit., p. 21.

⁷⁰ Submission from Sussex, op. cit., p. 7.

The Committee is not in a position to form a satisfactory conclusion as to the cost impacts of competitive tendering and there is a need for detailed research into the actual cost impacts of competitive tendering on social and community services.

Finding 6

Costs of tender preparation and submission have purportedly resulted in increased administration and overhead costs for NFPOs, based on estimated and not actual costs.

Recommendation 6

The Committee recommends that:

- (a) government agencies ultimately accountable for the delivery of social and community services should fund empirical studies into the actual cost impacts of competitive tendering; and**
- (b) the studies should encompass the input from all sectors actively involved in the delivery and receipt of social and community services, e.g. providers, purchasers, users and representative bodies.**

COST IMPACTS ON VOLUNTEERS

Volunteers provide a cost-effective source of labour to compensate for inadequate funding received from government agencies in respect of community welfare needs. Estimates suggest that 10% of the population greater than 15 years of age contribute an average of 74 hours each year to provide community welfare services. Such service equates to approximately 50 000 persons contributing 40 unpaid hours per week each year, representing a significant cost saving to government funding agencies and communities.⁷¹

The AG reported⁷² that those NFPOs who experienced funding shortfalls utilised various strategies including making greater use of volunteers. In moving towards increased competitive tendering and the importance of volunteers in the provision of community services, government agencies should ensure that NFPOs are made aware of the manner in which such additional funding should be claimed within contractual arrangements. Government agencies should be aware of the full value of unpaid contributions from volunteers and NFPOs fund-raising activities used to subsidise the cost of service delivery.

⁷¹ Industry Commission Report (1995), op. cit., p. 121.

⁷² Auditor General, Western Australia, op.cit., p. 21.

Sussex⁷³ submitted that:

One of the strengths of the not for profit sector has been its ability and capacity to harness volunteers and donations from the wider community. The impact of [the] Purchaser/Provider relationship and contracting of services on this is not clear. But early anecdotal information suggests there is a diminishing volunteer and donation base and this is due in part to the perception that community sector agencies are not “charities” any more rather they are seen as “contractors” and therefore become the same as other contractors in the community. This subject warrants careful study.

Apart from submissions received from Western Australian NFPOs, various comments reflecting the range of views from organisations in Australia are noteworthy:

There are no paid Meals on Wheels supervisors in South Australia, yet each is individually responsible for one of the 40 meal outlets around the State. They are no less a volunteer than anyone else, receiving only basic out of pocket expenses to cover telephone, correspondence costs, etc. These people are literally the heartbeat of the organisation’s activity, ensuring some 80% of our total meal requirements are available from our own kitchens on a daily basis. Then too, volunteers who assist in the cooking and delivering of meals are our lifeblood.⁷⁴

The introduction of competitive neutrality and competitive tendering presents at this time some risks for the community welfare sector. The more profit-oriented services become, the less attractive they may be to volunteers and donors who are willing to support not-for-profit organisations, or a specific cause, but have reservations about contributing to profit that is not ploughed back into services.⁷⁵

Under current community welfare service arrangements the role of the volunteer is valued highly and every effort is provided to ensure their needs are not overlooked, eg training, supervision, recognition, etc - under a competitive tendering system, will volunteers needs and legal requirements be overlooked in an effort to attain and maintain a contract at a predetermined price? Disillusioned volunteers are volunteers lost.⁷⁶

The essential role of volunteers must not be overlooked in this debate. What is the role of a volunteer in a competitive environment, and why should some donate their time, resources and energy, whilst others profit? The withdrawal of volunteerism will significantly impact on cost of service provision.⁷⁷

The Committee considers it a critical issue that volunteers are being lost through disillusionment, particularly in regional areas where volunteers often represent the lifeblood for the provision of services by NFPOs.

Anglicare Australia suggests that any increase in administrative costs is unrelated to a decline in the number of volunteers. Service providers across Australia have reported no decrease in volunteer numbers within their respective organisations. Part of the perceived reason for the lack of decline in the number of volunteers relates to the situation where job search requirements are waived if an individual on unemployment benefits undertakes volunteer community service work. Conversely, Chief Executive Officers of NFPOs report difficulties in securing individuals to

⁷³ Submission from Sussex, op. cit., p. 13.

⁷⁴ House of Representatives Standing Committee on Family and Community Affairs, op. cit., pp. 42-43.

⁷⁵ *ibid.*, p. 43.

⁷⁶ *ibid.*

⁷⁷ *ibid.*, p. 44.

serve on Boards and management committees due to increasingly complex financial and legal accountability requirements.⁷⁸

The Committee acknowledges the important role of the volunteer in the provision of social and community services, but regards the information as tendered in the submissions as insufficient to substantiate any objective conclusion on the impact of competitive tendering on volunteers.

Finding 7

Whilst the Committee acknowledges the important role of the volunteer in the provision of social and community services delivery, it is unable to formulate any definitive statement on the impact of competitive tendering on volunteers.

Recommendation 7

That government agencies responsible for social and community services fund independent empirical studies into the impact of competitive tendering on volunteerism.

LARGE VERSUS SMALL AGENCIES - A QUESTION OF COMPETITION?

FCS has developed a long-term procurement strategy, *Purchasing Quality Services* (PQS) with the intention that the strategy will guide and support the Department's purchase of social welfare services in the period beyond 2001.⁷⁹

The aim of the PQS strategy is to provide the best possible services by stabilising service provision and minimising the effect of unintended consequences associated with the purchase of welfare services contracting out/contract tendering.

The strategy aims to achieve, *inter alia*, the following:

- support for small and local service providers;
- reduce resource costs associated with open competitive tender processes; and
- acknowledge the unique nature of NFPOs in the provision of social welfare services.⁸⁰

⁷⁸ Neville, A. *Competing interests. Competition policy in the welfare sector.* Anglicare Australia, Discussion Paper No. 21, June 1999, p. 26.

⁷⁹ Submission from Family and Children's Services, op. cit., p. 9.

⁸⁰ *ibid.*

This strategy represents an attempt to balance the requirement of competition against disruption of services to 'at risk' department clients and recognise the value added contributions provided by NFPOs.

The strategy is perceived to be a positive indication of the WA Government's recognition and acknowledgment of the strategic value of small service providers which was expressed by a NFPO in the following manner:

Sussex Street is pleased that the WA Government clearly recognises and acknowledges the strategic value of small service providers. This has been clearly articulated in the Family and Children's Services Proposed Procurement Strategy (1999). Furthermore, this paper is written from the perspective of a small service provider . . .⁸¹

A central issue raised in the Committee's inquiry was the criticism that small service providers with limited resources and capital would be unable to compete successfully for contracts against the larger resourced organisations, to the detriment of disadvantaged groups dependent on welfare support, in particular, in rural and local communities.

While FCS recognises and acknowledges the strategic value of small and local service providers and has developed a draft PQS strategy, the current situation was expressed as follows:

Sussex Street has already noted that this [*sic*] government agencies clearly recognises and acknowledges the strategic value of small service providers. However, we have some concerns versus competition policy and how smaller agencies compete equitably with larger agencies. There are a range of concerns in this area and there is a feeling of insecurity in smaller agencies regarding the big players. There is a perception that they are predatory; whether that is true or not is not under discussion. However, there are a number of very real factors that contribute to this perception that Sussex Street would like to mention briefly. Again this is a matter that warrants broader research, consultation and debate. The most important issue is probably that in preparing tenders the big agencies have a lot more resources, infrastructure and expertise that they can direct towards the preparation of tenders. In comparison the smaller agencies, have limited experience and resources that can be channelled into preparation of tenders.

The economics of scale provided by large organisations is potentially better for the purchaser, but not necessarily better for the client. The big organisations have substantially higher levels of management and administrative infrastructure costs, as well as be able (*sic*) to provide better and slicker tenders; they can also provide better data, prompt reports and the like. But, this does not necessarily equate with better services for clients. In following this logic it has recently been argued that the consumer of the service is not the client and the service provided is not the product. It has been argued that the report in fact is the product, and therefore the consumer in reality is the purchaser in that the product that is purchased is the reports and the data not the actual services provided by the agency.

Furthermore, the big organisations have the potential to develop into welfare oligarchies in that they often have cosy relationships with senior government officials and indeed Ministers. Government is more likely to consult directly with the organisations, because they are the big purchasers of services and yet they may not pay the same attention to smaller agencies that have an equally important perspective that may differ significantly from that of the larger agencies. Big agencies appear to have access to Government in a way that is beyond the reach of most small service providers.⁸²

⁸¹ Submission from Sussex, op. cit., p. 5.

⁸² *ibid.*, p. 9.

While other NFPOs in Australia have expressed similar sentiments about their inability to compete with the larger and better resourced organisations there is the view that competitive tendering has resulted in many smaller service providers reassessing their role in service delivery and applying strategies to improve their efforts.⁸³

The view has been expressed that increased contracting out was a positive factor in that the process would encourage strategic partnerships between large and small service providers, resulting in improved services to welfare users. The viewpoint was expressed by The Smith Family in their submission to the House of Representatives Standing Committee on Family and Community Affairs in the following manner:

. . . in some instances the unique nature of welfare service needs requires a more collaborative, rather than competitive approach between agencies. For example, in the case of remote communities, the expertise and advantage of smaller local organisations could be sub-contracted under the auspices of the larger, better resourced agencies. This would allow these smaller organisations to maintain their specialised services while utilising the benefits of a larger organisation's infrastructure for aspects such as quality control, data collection and information services.⁸⁴

Contrary to the stated view of positive relationships between large and small service providers, certain NFPOs were of the view that competitive tendering had the potential to undermine effective working relationships between purchaser-provider and inter-agency relationships.

The view of reduced collaboration and increased competition between purchaser-provider was described by Anglicare South Australia to the House of Representatives Standing Committee on Family and Community Affairs as follows:

. . . Under competitive tendering...government...have actually started to bring in notions of competition. You cannot talk to one another. This is seen as collusion . . . I have certainly experienced and seen an erosion of collaboration.⁸⁵

With regard to inter-agency relationships the situation was described by ACOSS as follows:

Increased use of tendering is likely to lead to tensions and divisions within the sector, and act against cooperation and collaboration . . .⁸⁶

The WA Network of Community Based Home Care Services Inc.⁸⁷ described the situation as follows:

Since implementation of the Safeguards Policy the collaboration between HDWA and the service providers appears to have broken down. The Review promised by HDWA when the Working Group was developing the implementation process was supposed to be concurrent with the implementation and therefore able to inform the process. Implementation commenced in July 1999. In August 2000 the review is yet to commence and any opportunity to benefit implementation or solve problems as they arose has been lost.

⁸³ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 37.

⁸⁴ *ibid.*

⁸⁵ *ibid.*, p. 39.

⁸⁶ *ibid.*, p. 40.

⁸⁷ Submission from the WA Network of Community Based Home Care Services Inc., to the PAC, 11 September 2000, p. 7.

RURAL AND REMOTE COMMUNITIES AND EFFECTIVE COMPETITION

The Commonwealth Report⁸⁸ questioned the suitability of a competitive model, in particular, the lack of effective competition in small rural and remote communities in the delivery of social and community services.

In competitive tendering, the best provider is usually awarded the tender. The problem that arises in small or remote communities is that the characteristics of the market or service may result in very few service providers being available. This raises questions concerning the suitability of competitive tendering for those communities. Commonwealth submissions indicated that providers were of the view that competitive tendering was inappropriate for rural areas where there was only one service provider, or where the lack of effective competition may result in tenders being awarded to larger organisations who lack local knowledge to meet the needs of small communities. This lack of knowledge may have an adverse impact on effectiveness measures.⁸⁹

The WA Network of Community Based Home Care Services Inc. (1998) and Tasmanian Government stressed the loss of funding and its consequences upon the aged and community when larger organisations were awarded tenders in remote areas. The view was that governments needed to consider alternatives to competitive tendering to ensure effective delivery of social and community services.⁹⁰

The Committee recognises that in many rural and remote communities, competitive tendering maybe inappropriate for purposes of achieving effective and efficient service delivery.

CONCLUSION - UNRAVELLING THE EFFECTS

An analysis into the impact of competitive tendering/contracting out on the delivery of social and community services by NFPOs suggests that NFPOs may be experiencing difficulties with the manner in which the policy of competitive tendering/contracting out is being implemented, as opposed to the policy itself. Are the effects of competitive tendering the result of policy implementation?⁹¹

Under competitive tendering the government is responsible for accurately defining community needs which forms the basis for establishing tender criteria, developing the contract terms and conditions and assessing contract outcomes. NFPOs wishing to submit tenders must address detailed tender specifications which is resource intensive and time consuming. This process, with its increased cost implications, appears to favour larger organisations and may serve to explain the apparent demise of smaller organisations who are faced with increased administration costs under a system of competitive tendering. The net result is that larger organisations tend to increase in size while smaller NFPOs either disappear or merge with larger organisations.⁹²

A change in policy may exacerbate the effects of competitive tendering where, for example, a government agency restructures some services into a composite whole and tenders out to a specific service provider within defined geographical limits. The objective of the government

⁸⁸ House of Representatives Standing Committee on Family and Community Affairs, op. cit., pp. 44-47.

⁸⁹ *ibid.*, p. 46.

⁹⁰ *ibid.*, pp. 46-47.

⁹¹ Neville, A. (1999), op. cit., p. 35.

⁹² *ibid.*, p. 43.

agency would be to ensure continuity of services through a process of favouring larger organisations.⁹³

Lack of consistency in tender requirements with attendant increase in cost of tender submission provides another example of how implementation policy may exacerbate policy effects. Increased administration costs are problematic particularly where overall funding levels are decreasing while service demand increases. In Western Australia it was reported that funding levels have not changed since 1993.⁹⁴ Smaller NFPOs are more vulnerable and less able to provide services due to the cost implications of acquiring funding.⁹⁵

Service providers regard inadequate funding levels which do not reflect the true cost of service provision as an example of poor implementation policy. The use of historical benchmark unit costs (Commonwealth and State Governments' reluctance to identify realistic benchmark unit costs) in fixed price tenders places government in the position to ignore the cost of voluntary labour, management time and relatively low wage levels in the community sector.⁹⁶

While some NFPOs perceive an increase in administrative costs as a result of increased reporting requirements, others view the process as a consequence of increased accountability by government to the Western Australia community and the manner in which government has responded to these increased accountability requirements. The process is also influenced by changes in administrative systems and procedures. For example, program-based management moved to outcomes-based management with the WA *Financial Audit and Administration Act 1985* underpinning financial accountability. Instead of replacing the previous system with the new change it appears that most government agencies have regarded the change as simply an addition to previous systems.⁹⁷

Increased accountability requirements and the awareness of responsibility influences both government and NFPOs which, together with the use of contracts in competitive tendering, may serve to explain reasons why NFPOs have difficulty in attracting volunteers to serve on Boards and Management Committees.⁹⁸

Government demands for increased accountability (competitive tendering/contracting out) has resulted in a shift of power between government agencies and NFPOs. The shift is noticeable by government exercising greater control and in NFPOs experiencing reduced levels of autonomy.⁹⁹

The manner in which government policy is being implemented, rather than the policy per se, serves to explain a reduction in collaboration and consultation between government and NFPOs. While NFPOs have historically competed for scarce funding resources, the lack of collaboration is viewed as a response to changes in funding arrangements and decreasing funding levels.¹⁰⁰

In summary, competitive tendering/contracting out is impacting on the social and community services sector. The tender process has increased costs to NFPOs, which tends to favour larger organisations in tender submissions. The impact of change from grants to tender funding appears to be of less significance than the manner in which policy is being implemented and the reduction

⁹³ Nevile, A. (1999), op. cit., p. 43.

⁹⁴ *ibid.*, p. 30.

⁹⁵ *ibid.*

⁹⁶ *ibid.*, p. 30.

⁹⁷ *ibid.*, p. 31.

⁹⁸ *ibid.*

⁹⁹ *ibid.*

¹⁰⁰ *ibid.*, p. 35.

in funding levels. Poor implementation strategies, as in the case of inconsistent tender requirements, tends to increase administrative costs, which is exacerbated by reduced funding levels and concomitant increases in demand for services.

The reduction in collaboration and consultation between government agency, NFPO and clients is largely due to the manner in which policy is being implemented rather than the policy per se. While government policy guidelines emphasise the importance of collaboration and “partnership” between stakeholders, in many cases departmental practices conflict with policy statements and guidelines.

CHAPTER FOUR

CURRENT MONITORING OF PERFORMANCE STANDARDS BY THE SOCIAL AND COMMUNITY SERVICES DELIVERY SECTOR

INTRODUCTION

Performance monitoring may be defined as the process by which an organisation's performance is supervised to ensure compliance with predetermined performance standards.¹⁰¹ Performance monitoring is based on the premise that performance indicators relating to efficiency (quantitative) and effectiveness (qualitative) are meaningful for purposes of outputs and outcomes. Effective performance monitoring is critical especially where:

- there are ongoing relationships relative to service delivery;
- performance measurement is difficult, in particular, with regard to qualitative issues; and
- possible disputes between purchaser (government agency) and provider (NFPOs) which entail high costs and disruptions to service delivery.¹⁰²

PERFORMANCE INFORMATION

Performance information is evidence about performance that is collected, monitored and used systematically. It encompasses the setting of objectives, development of means to achieve objectives, use of quantitative and qualitative indicators, targets, standards and benchmarking.

Performance information has a broad basis that extends beyond performance indicators. It enables managers to monitor progress towards achievement of objectives and indicates success or failure in achieving specified objectives.

Performance information, including outcome measures, is one of the means of achieving Parliamentary accountability. Close examination of those measures by the proposed portfolio-based Standing Committees of the Legislative Assembly would improve that accountability. Particular attention should be paid to:

- the framing of objectives and strategies;
- accountability levels and fluctuating timeframes for output information;
- outcomes of choosing particular indicators; and
- the reporting of performance information.

One of the principal vehicles for public accountability is public reporting. Thus, transparency is an essential component of accountability. Annual reports should be a balanced and provide a candid account of both successes and shortcomings.

¹⁰¹ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 49.

¹⁰² *ibid.*

Managers require adequate performance information in relation to effectiveness to make informed decisions about the allocation, priority and use of resources or provide advice on the appropriateness, success, shortcomings and future direction of objectives. The issue has a bearing on risk management, which requires a proactive approach and being well informed.

EVALUATION

Evaluation refers to:

. . . determining the merit, worth or value of something, or the product of that process.¹⁰³

In a more applied sense it has been held that:

Program evaluation can be defined as the systematic assessment of a program, or part of it, to assist program managers and other decision makers to:

- assess the continued relevance and priority of program objectives;
- test program effectiveness;
- examine program efficiency;
- assess the case for the establishment of new programs; and
- decide whether the resources for the program should continue at current levels, be increased, reduced or discounted.¹⁰⁴

Performance evaluation is the end product of the monitoring process. While it is important that the process (delivery of services) is monitored to ensure compliance with predetermined performance standards, it is essential that the process be evaluated to determine efficiency and effectiveness.

¹⁰³ Department of Finance (1994). *Doing Evaluations - A Practical Guide*, Canberra.

¹⁰⁴ Family and Children's Services, op. cit. p. 21.

Evaluation Framework

	Key Evaluation Concepts	Evaluation Questions
Outcome	Impact	What impact has the extent of achievement of the outcome had on the policy issue/problem?
	Effectiveness	To what extent have the desired outcomes been achieved?
	Cost Effectiveness	What is the unit cost per successful outcome; how does this compare with other strategies, benchmarks?
Output	Appropriateness	Do the outputs provided meet identified needs? Are the outputs appropriate for the needs of consumers? To what extent do specific outputs result in achievement of outcome?
	Quality	How effective are the outputs? Are outputs provided within agreed time frames?
	Accessibility	To what extent is the demand for the service met? Is there equity of access?
	Efficiency	Is the output efficiently produced?

The AG reported¹⁰⁵ that government purchasing agencies do not fully understand the evaluation process relative to the impact of social and community services delivered by NFPOs.

The Committee is concerned that if government agencies do not fully understand the evaluation process then such agencies are at a distinct disadvantage in determining the efficiency and effectiveness of outcomes relative to the delivery of social and community services. Government is ultimately accountable to the Western Australian community and while NFPOs are accountable for the *use* of government funds as part of their contract obligations, they have not assumed the responsibility of accountability in the wider sense. Accountability cannot be delegated by government agencies to NFPOs. Government agencies are ultimately accountable and the fact that they do not fully understand the evaluation process raises the question of how government agencies assess the impact of funded services, in particular, whether NFPOs are contributing to the achievement of outcomes desired by government.

In evidence,¹⁰⁶ the AG stated that:

Such evaluations are inherently difficult and complex. Agencies are coming to grips with beginning to do that work but still have a long way to go. Under output-based management, agencies must demonstrate how funded services are contributing to the high level of outcomes desired by government, and identify that in practical terms. It appears that not a

¹⁰⁵ Auditor General, Western Australia, op. cit., p. 32.

¹⁰⁶ Transcript of Evidence, 18 September 2000, pp. 12-13.

great deal of work has been done in that area to date. The focus has been on implementation but not yet evaluating or getting the feedback loop working.

The Committee is of the view that evaluation training for government agencies is critical, in particular, selection of, and training in, the appropriate evaluation technique and the allocation of sufficient resources for that purpose.

Finding 8

Government agencies are experiencing difficulties in evaluating the efficiency and effectiveness of outcomes relative to the delivery of social and community services.

Recommendation 8

That government agencies ultimately accountable for the delivery of social and community services undertake evaluation training in order to be in a position to determine whether funded services are contributing to the achievement of outcomes desired by government.

INADEQUATE PERFORMANCE MONITORING IN THE SOCIAL AND COMMUNITY SERVICES SECTOR

Currently, there are a number of apparent limitations to performance monitoring by government agencies, in particular:

- developing robust quantitative and qualitative performance indicators for outcomes and outputs;
- uncoordinated approaches to the development of performance standards and quality measures;
- high costs of reporting; and
- limited expertise in performance monitoring.¹⁰⁷

The AG reported that the Disability Services Commission, FCS, MHD, Ministry of Justice - Community Based Services and the Western Australian Drug Abuse Strategy Office claimed that their offices “always” specified the manner of assessment of outputs and outcomes. The Aboriginal Affairs Department indicated ‘frequently’ while WPO indicated ‘not often’. Examination of a sample of contracts revealed that over half of the 17 MHD contracts did not include specific quality standards and/or output measures for output purchased.¹⁰⁸

¹⁰⁷ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 51.

¹⁰⁸ Auditor General, Western Australia, op. cit., pp. 29-30.

Approximately 80% of NFPOs reported that their funding agreements ‘always’ or ‘frequently’ specified the manner of assessment of identified outputs and outcomes. In survey comments, NFPOs stated that they were required to provide the purchaser with regular progress reports, financial statements and on occasion participate in review meetings. Some NFPOs claimed that little attention was given to the quality of services or achievement of high level objectives.¹⁰⁹

Performance Indicators in the Social and Community Services Sector

Effective performance indicators may be defined¹¹⁰ as:

- reflecting client needs and covering key elements of contractor performance, such as cost, level and quality of output;
- cost-effective to collect, providing adequate data at reasonable cost;
- practical to implement and providing reliable data;
- consistent with government agency objectives and acceptable to service provider;
- sufficient in number to overcome misleading information; and
- supported by a collection system.

The definition lacks emphasis on the need to develop reliable effectiveness indicators in conjunction with government agencies, providers and community users based on a range of performance indicators that focus on volume of outputs (client service) and quality of outcomes (improvement of clients quality of life).

Performance indicator measurement that takes into account effectiveness (quality) of service based on client focussed outcomes and acceptable to social and community service users has proved extremely difficult because of the intangible nature and long term benefits of various welfare services.

As one NFPO argued:

There have been countless attempts (in this country as well as others) to arrive at a meaningful measure of client focussed outcomes. Output based performance indicators require satisfactory balance between effectiveness, efficiency, appropriateness and cost. This is an impossibility in the field of human services, as it would be in any field where there exists a multitude of external and autonomous stimuli.¹¹¹

It appears that purchasers have relied more upon quantitative output measures as an indicator of performance than qualitative measures due to the intangible nature or difficulty in developing meaningful indicators relative to quality outcomes for users. Various comments from NFPOs refer to the propensity of purchasers to concentrate on monitoring performance standards based on output funding:

The ability of a service to ‘perform’ is now measured by output based funding formulas which detail such things as: worker to client ratios, percentage of case managed clients, total number of clients to receive support annually, average duration of support, average annual occupancy, etc . . . services are also monitored by the interpretation of client data they supply . . . This is a prime example of the monitoring of performance standards based on output

¹⁰⁹ Auditor General, Western Australia, op. cit., p. 30.

¹¹⁰ Hall, C. and Rimmer, S. (1994). Performance monitoring and public sector contracting. *Australian Journal of Public Administration*, 53(4), 453-61.

¹¹¹ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 53.

based funding . . . Whilst data collection is necessary and often useful, effective data collection is governed by many factors which may ultimately serve to indicate efficiency but not effectiveness, unless of course increased effectiveness is inappropriately defined as more direct service hours to clients for the same (or less) overall funding.¹¹²

The question of outputs and outcomes needs special attention. Too often the objectives of programs are vaguely defined and hence no evaluation can be done; or too specifically defined that they never encompass all the indefinable quality which service providers are aware of. If objectives are defined too broadly, any activity may be said to contribute to them; if defined too narrowly, they may favour one segment of the organisation against another.¹¹³

Community sector workers have long argued that outputs (quantity) do not necessarily equate to outcomes or quality service provision. Output based funding offers performance measures which monitor tangible commodities. The delivery of human services can be complex, requires varied responses and often hinges on the relationship between the worker and client at an individual level.¹¹⁴

Sussex¹¹⁵ expressed its concern in the following manner:

There is considerable misunderstanding and abuse of the principles of strategic planning, for example, the tension between performance indicators and targets. A basic principle of strategic planning is that it is about objectives and performance indicators are there to measure whether those objectives are achieved. Strategies are the mechanism to achieve those objectives, or the how the objectives are achieved, and are in essence disposable. But more and more we are seeing funding bodies wanting to set targets in relation to strategies; the driving force being the need for statistics. The problem then is that statistics become the emphasis, rather than the quality of services to disadvantaged people in the community.

WA No Interest Loans Network Inc.¹¹⁶ stated that:

Whilst competitive tendering in the human services sector provides a number of benefits for government, there are clearly inherent risks in the impact it can have on non government service providers in terms of service philosophy, planning and quality. A fundamental concern should be that competitive tendering should enhance, rather than diminish access to services and service quality for disadvantaged members of the Australian community.

WA Network¹¹⁷ stated that:

Some progress has occurred in terms of defining contract outputs however, these do not take into account effectiveness and little work has been done in terms of outcomes.

The Committee is concerned that there appears to be some confusion among government agency providers as to the meaning of quality of outcomes. It seems that purchasers regard the outcome of services as being quantitatively and not qualitatively assessed/measured against performance standards. The key issue for the Committee centres around the question of how government

¹¹² House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 53.

¹¹³ *ibid.*, p. 54.

¹¹⁴ *ibid.*

¹¹⁵ Submission from Sussex, op. cit., p. 12.

¹¹⁶ Submission from WA No Interest Loans Inc., to the PAC, 10 July 2000.

¹¹⁷ Submission from the WA Network of Community Based Home Care Services Inc., op. cit., p. 7.

agencies measure quality and how it improves service effectiveness if the concept of quality (being intangible) is difficult to measure. As described by Sussex¹¹⁸:

It is also not at all clear as to how is [*sic*] quality improvement is measurable.

The evidence suggests¹¹⁹ that the difficulties encountered in determining meaningful and effective performance measures for outcomes has resulted in an uncoordinated approach to monitoring, in particular, where purchasers use multiple performance standards and quality mechanisms across the welfare sector.

COSTS OF REPORTING

Effective performance monitoring is undermined by the array of performance standards and associated cost burden on service providers. It appears that the cost burden acts as a disincentive to maintain effective monitoring.

The cost of reporting which is part of monitoring costs led Sussex¹²⁰ to state:

. . . we have nine funding sources, and they have different reporting requirements and this, in itself, puts enormous pressure on the agency and soaks up time and resources.

Bloodwood Tree Association Inc.¹²¹ explained the issue in the following terms:

Our local Council employs consultants at a cost of between \$5,000 and \$15,000 to formulate business plans . . . I realise the request is for an abridged outline of activities, however this type of requirement is not reflected within the budget and can have an adverse affect on outcomes within that budgeted program specifically funded for.

WA Network of Community Based Home Care Services Inc.¹²² stated that:

The importance of this National Service Standards Instrument¹²³ is not disputed. The issue is that of the minimal amount of support given to the service providers, the shortness of time allowed for completing it, and the lack of compensation for the time taken in jeopardy due to the funding cut for the current year.

TRAINING IN PERFORMANCE MONITORING

Where staff of government agencies (purchasers) and NFPOs lack expertise to effectively monitor performance, the service outcome is compromised and the capacity of NFPOs reduced.

¹¹⁸ Submission from Sussex, op. cit., p. 8.

¹¹⁹ House of Representatives Standing Committee on Family and Community Affairs, op. cit. p. 56.

¹²⁰ Submission from Sussex, op. cit., p. 7.

¹²¹ Submission from Bloodwood Tree Inc., op. cit., p. 2.

¹²² Submission from the WA Network of Community Based Home Care Services Inc., op. cit., p. 5.

¹²³ The National Standards Instrument measures the quality of the service provided by Home and Community Care (HACC) funded agencies against the HACC national Service Standards.

The AG¹²⁴ was of the view that effective contracting for the delivery of community services depended upon:

- government purchasers and contract managers having appropriate skills;
- the suitability of the tender process for purposes of providing welfare services;
- NFPOs having the requisite skills for purposes of contracting;
- government agencies and NFPOs collaborating to achieve maximum benefit of contracting; and
- government agencies being responsible for, and managing the transition from, a grant based approach to contracting of NFPOs in respect of the provision of service delivery.

In the House of Representatives Standing Committee on Family and Community Affairs Report¹²⁵, it was noted that the Queensland Government suggested that findings indicated that support and monitoring mechanisms for services delivered by the non-government welfare sector was not adequate in assisting NFPOs to improve service performance. Findings strongly suggested that many community organisations and their staff requested a high level of support from funding agencies in developing action plans, implementing strategies and monitoring performance.

Many government agencies have limited previous experience/exposure to contract management and lack the skill to develop and implement effective performance measures. As a result, governments will be required to provide funding to train both government funding agencies and NFPOs to achieve best practice in performance monitoring.¹²⁶

The AG¹²⁷ is of the view that if the Government wishes to gain the full benefit of contracting for welfare services, public sector agencies will need to promote the development of contracting skills within NFPOs.

MHD has indicated that the Health Department of WA has provided various levels of support to NFPOs including:

- funding peak bodies to provide support services;
- support and development through collaboration with the Health Department of WA and regional practitioners;
- direct consultation with MHD contract managers; and
- improving consistency of contract specifications and ongoing support by the Health Departments Contract Management Branch.¹²⁸

FCS has advised that it has:

- moved away from a centralised approach and placed Community Development and Funding Officers in the region where services are to be delivered;
- provided Contract Management staff to NFPOs which would result in the development of a closer working relationship and improve the quality of support; and
- provided NFPOs with the Perth-based Community Skills Training Centre (CSTC) to assist in both managerial and client-based skills training at no cost to users.¹²⁹

¹²⁴ Auditor General Western Australia, p. 35.

¹²⁵ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 61.

¹²⁶ *ibid.*

¹²⁷ Auditor General, Western Australia, op. cit. p. 37.

¹²⁸ *ibid.*

It appears that most NFPOs have difficulty in adapting to the contract environment despite the efforts of CSTC, FCS, MHD and other public sector agencies. The AG provided the following illustrative comments:¹³⁰

Small NFPO's are not well equipped to deal with the changes required by the implementation of contracting. They lack the resources and infrastructure to cope;

The NFPO sector needs training and support in preparing tenders. This is particularly important for organisations based in rural areas;

Skill development is required and needs to be resourced at all levels as part of an industry reform package; . . .

Sussex provided the following example:

An additional concern is the whole issue of different reporting requirements and systems . . . Sussex Street would argue . . . that there should be more common data collection systems between funding sources to take that pressure off the non-government service delivery agencies.¹³¹

From the information provided, the Committee acknowledges that government agencies and NFPOs are experiencing difficulties in determining effective performance indicators, including outputs and outcomes, relative to the welfare services sector. However, the Committee is of the view that in spite of the fragmented and uncoordinated approach to determining key performance indicators by the welfare services sector, it is possible to develop and implement efficient and effective indicators through consultation and agreement between agencies, NFPOs and community users.

The Committee acknowledges that the use of different performance standards has resulted in onerous reporting requirements that should be reviewed with the objective of varying reporting requirements which should be made dependent upon funding value or complexity of contract or agreement.

Sussex¹³² described the process as follows:

. . . it seems quite bizarre that the reporting requirements are the same for community sector agencies whether they receive \$25,000 or \$800,000. I would recommend that there are differing reporting requirements for groups funded under a threshold of say \$250,000 due to the inequities discussed previously. Further, I would recommend that the groups that come in below the threshold have a default reporting mechanism as previously discussed that meets accountability requirements. This is so that the amount of reporting required is commensurate with the level of funding provided for service provision.

WA Network¹³³ described the process as follows:

The set-up activity for compliance is time-consuming and will be complicated, especially for small agencies who do not have a computer and/or appropriately trained administrative staff. In terms of this reporting being onerous, it is relevant to note that on her visit to WA in

¹²⁹ Auditor General, Western Australia, op. cit., p. 37.

¹³⁰ *ibid.*, p. 38.

¹³¹ Submission from Sussex, op. cit., p. 7.

¹³² *ibid.*, p. 11.

¹³³ Submission from the WA Network of Community Based Home Care Services Inc., op. cit., pp. 5-6.

March 2000, Dr Anna Howe, the principal investigator to the national consultancy 'Targeting in the HACC Program' passed the comment that the term 'minimal' has questionable applicability to this particular reporting process.

... The requirement to be accountable is not in dispute. The extensiveness of the reporting is of concern and once more HACC has not provided any additional funding to cover the costs of removing staff members from their usual service delivery tasks.

Finding 9

- (a) Government agencies are experiencing difficulties in developing and implementing meaningful and effective performance measures for outcomes relative to the social and community service sector.**
- (b) Difficulties in developing effective performance measures have resulted in government agencies adopting an uncoordinated approach to monitoring.**
- (c) Service providers and staff require a high level of training and support from funding agencies in developing action plans, implementing strategies and monitoring performance.**
- (d) The use of different performance standards has resulted in multiple and inconsistent accountability requirements for service providers.**

Recommendation 9

The Committee:

- (a) endorses the recommendations of the AG¹³⁴ in respect of the role that government should adopt to coordinate a strategy for managing the tendering out process, rationalise the multiple and inconsistent accountability requirements for NFPOs and prepare practice guidelines on tendering for welfare services delivery;**
- (b) recommends that government agencies, service providers and community users develop efficient and effective performance indicators through consultation and agreement between government agencies, providers and users that focus on community needs and quality of outcomes (improvement of clients' quality of life); and**
- (c) recommends that both government agencies and NFPOs undertake training in performance monitoring and in particular, that government agencies undertake training in evaluation of performance monitoring.**

¹³⁴ Auditor General, Western Australia, op. cit., p. 38.

CHAPTER FIVE

THE ROLE OF GOVERNMENT AND GOVERNMENT AGENCIES

The Government has a central or pivotal role in setting standards and in monitoring performance and accountability in respect of the delivery of services by NFPOs.

The Committee supports the view¹³⁵ that government is ultimately responsible for the efficient and effective delivery of services, irrespective of whether the welfare services are provided by government agencies themselves or via tendering out/contracting to NFPOs. The view is that performance benchmarks should be determined in collaboration/consultation with NFPOs and welfare users. Government should resource consumers to ensure effective input and the effectiveness of contracting out depends on the ability of government to develop standards in consultation with all service stakeholders.

The idea of collaboration between agencies and NFPOs may be perceived to be one of partnerships in order to determine monitoring and accountability requirements was expressed as follows:

The relationship between the government and the service provider should be a partnership to determine monitoring and accountability requirements.¹³⁶

It would appear that some NFPOs do not necessarily perceive the relationship with government agencies as constituting a ‘partnership’. The following comment from Sussex serves to illustrate the point:

A part of the problem is the changes in language and emphasis with regard to the nature of the relationship between Government and NGO’s. For example, after many years of talking about “partnership”, Minister Nicholls arrived and very quickly “partnership” between Government and non Government was not in vogue and he utilised the “purchaser/provider” kind of relationship. He was followed by Minister Edwardes and “partnership” became a buzz word again. Now, we seem to be hearing more of the “purchaser/provider” kind of rhetoric with “partnership” mixed into it. So, I would suggest that we need to clearly define the language and the nature of the relationship in a post-Hilmer environment.¹³⁷

The problem of a partnership between government and the voluntary sector has been described in Canada in the following manner:

For a variety of reasons, the existing relationship between governments and the voluntary sector does not reflect a true partnership, with mutual respect and joint decision making . . . In order to better serve our communities, a practical method for developing and sustaining a meaningful partnership needs to be addressed.¹³⁸

¹³⁵ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 71.

¹³⁶ *ibid.*, p. 72.

¹³⁷ Submission from Sussex, op. cit., p. 5.

¹³⁸ Panel on Accountability and Governance in the Voluntary Sector (1999), op. cit., p. 16.

Finding 10

There is a lack of collaboration between government and NFPOs in terms of determining performance benchmarks and the development of standards of practice.

Recommendation 10

That performance benchmarks be determined in collaboration and consultation with government, service providers and welfare users.

The Committee is of the view that the Government, in partnership with NFPOs and consumers, should examine the:

- comprehensiveness of service agreements/contracts;
- efficiency and effectiveness of current tender processes; and
- effectiveness of ongoing management of service agreements.

COMPREHENSIVE SERVICE AGREEMENTS/CONTRACTS

The introduction of funding arrangements has resulted in different approaches for the purchase of community services across government, which reflects historical differences in departmental approaches to funding and the variety of funded organisations and the services they provide.

In 1995, FCS introduced new arrangements for the funding of community services known as the *Funding of Services Model*, based on NCP and the procurement policy of *Buying Wisely*. In recognition of the *Funding of Services Model*, FCS obtained State Supply Commission accreditation to purchase non-government services with a contract value of up to \$5 million. For services exceeding \$20 000, a standard Service Agreement was developed in consultation with WACOSS and the Crown Solicitors office.¹³⁹

The Committee considers that in order to minimise the possibility of unsatisfactory service outcomes, service agreements and contracts should contain detailed information covering the legitimate expectations of stakeholders.

¹³⁹ Submission from Family and Children's Services, op. cit., pp. 1-2.

Finding 11

Government agencies do not have a standard approach to formulating service agreements/contracts.

Recommendation 11

The Committee recommends that contracting agencies should ensure that service agreements/contracts contain, at the very least, the following explicit statements:

- the parties to the agreement;
- the purpose of the agreement, in particular, the objectives, outcomes and outputs, together with definitions of the concepts;
- the specific duration of the agreement;
- the price to be paid for the specific outputs and outcomes and variation procedure. If the contract price excludes the full cost of service provision, the government agency should make reference to that fact and specify that the NFPO is expected to contribute to the cost of provision of the service. The full amount of the contribution should be specified in the service agreement;
- method, time and amount of payments;
- performance measures relating to effectiveness and efficiency;
- respective parties' accountability requirements, together with details by way of schedules;
- insurance;
- penalties and rewards for performance below or above agreed standards. Consideration should be given to the appropriateness of rewards/incentives where services providers exceed standards;
- dispute resolution; and
- termination of agreement with particulars of circumstances justifying termination.

The recommendations as suggested by the Committee reflect similar requirements by FCS in respect of its service agreements with WA service providers and the report by Rogan *et al.*, (1997), which examined the implementation of Service purchasing arrangements in the Australian Capital Territory.¹⁴⁰

¹⁴⁰ Rogan, L. *et al.*, (1997), op. cit., p. 53.

MANAGING THE TENDER PROCESS

The Commonwealth Report ¹⁴¹ indicated major inadequacies in the tendering process including, *inter alia*, poor communication and consultation between government agencies and NFPOs, which resulted in different interpretations of contract requirements and a lack of transparency in the tender process. Additional inadequacies included a lack of:

- expertise in preparation of tender documents and ongoing contract management;
- subject matter knowledge, resulting in inadequate contract specifications; and
- clarity in respect of respective responsibilities and accountability requirements of government agencies, service providers and clients and unreasonable time frames being imposed on tenderers.

As previously stated in this report, the AG¹⁴² pointed out that if the Government wished to obtain the full benefits of contracting out welfare services, public sector agencies would need to promote the development of contracting skills and good practices within the NFPO sector.

Apparent inadequacies ¹⁴³ included, *inter alia*, a lack of;

- contract skills relative to government purchasers and contract managers; and
- contract skills and infrastructure by NFPO contractors to operate in a contracting environment.

A significant conclusion by the AG was that each of the seven government agencies examined had adopted a different approach with regard to contracting out welfare services and their efforts to promote good contracting practices in the NFPO sector was both fragmented and uncoordinated.

Finding 12

There is no single recommended procedure for government agencies to follow with respect to contracting out welfare services. This leads to a fragmented and uncoordinated approach by different government agencies.

¹⁴¹ House of Representatives Standing Committee on Family and Community Affairs, op. cit., pp. 73-74.

¹⁴² Auditor General, Western Australia, op. cit., p. 37-38.

¹⁴³ *ibid.*, p. 35.

Recommendation 12

The Committee recommends that government agencies establish explicit service procedures to ensure that:

- (a) staff of government agencies are appropriately skilled, in particular, in the area of tender preparation and contract management;**
- (b) tender documents are prepared and finalised within a specified period;**
- (c) constructive working relationships are initiated and maintained between government agencies and NFPO service providers in order to achieve the full benefits of contracting;**
- (d) mechanisms are in place to ensure that questions from tenderers are addressed prior to selection of the successful tenderer;**
- (e) there is an impartial and transparent assessment of tenders against clear selection criteria;**
- (g) the tender/contract process is deemed appropriate for the purchase of welfare services;**
- (h) contractual incentives are available to reward superior performance;**
- (i) efficient and effective performance indicators are utilised and clearly understood by government agencies and NFPOs after joint consultation; and**
- (j) there are specific time periods for the awarding of contracts to successful tenderers and for the notification of successful/unsuccessful tenderers.**

EFFECTIVENESS OF ONGOING MANAGEMENT

Government agencies have the responsibility of ensuring that contracts are managed efficiently and effectively throughout the contract period. There have to be effective mechanisms in place for purposes of monitoring the quality of services being achieved.

Inadequacies in performance monitoring need to be addressed. It appears that difficulties are encountered in measuring outcomes and this is combined with a lack of a coordinated approach in developing standards and outcome performance indicators. The AG¹⁴⁴ explained that certain government agencies have taken different approaches to contracting NFPOs with the result that there are different standards and quality assurance systems being applied across the welfare sector.

¹⁴⁴ Auditor General, Western Australia, op. cit., p. 38.

The Committee is of the view that current inadequacies have arisen partly as a result of a lack of consultation and collaboration between government and other stakeholders.

Sussex¹⁴⁵ submitted that there was a need for consultation and argued:

There needs to be active community consultation and negotiation in the ongoing development stages funding programmes, given the expertise and experience that exists in the community based not-for-profit organisations, particularly as these types of agencies will often be the providers of the services. Two recent examples; the community consultation that went into the development of service specifications for the No Interest Loan Schemes was important and helped define the shape of the service; another was the meetings held with community agencies and tenancy workers in the programme development of the tenancy services network by MFT.

The Committee endorses the partnership view of consultation and collaboration between government and stakeholders and acknowledges that NFPOs have particular experience and expertise in welfare service delivery.

The question of utilising the expertise and experience of NFPOs in the delivery of welfare services by way of consultation and collaboration is considered crucial for the efficient and effective development and monitoring of performance standards towards the goal of best practice within NFPOs.

The conclusion drawn in the Commonwealth Report¹⁴⁶ was that an independent body outside of government should set standards and accept responsibility for performance monitoring with the aim that NFPOs would be encouraged to provide input into the process. In addition, service-specific advisory committees should be established comprising an equal number of representatives from government contracting agencies, service providers and consumer representatives.

The view¹⁴⁷ is that such committees would provide unbiased information which would assist in identifying differences in expectations and experiences between stakeholders and contribute towards a more efficient and effective policy.

ACCOUNTABILITY PROVISIONS IN SERVICE AGREEMENTS

The service agreement should contain clear and explicit statements relating to the responsibilities of government agencies and NFPOs covering, *inter alia*, the fact that:

- the NFPO must be accountable to government agencies for the use of funding in the provision of community services. The suggestion is that the detail required in the reporting function should be a direct coefficient of the value of the contract price (the smaller the contract value the less emphasis on rigorous financial and performance requirements and vice versa). Evidence suggests that current performance and accountability reporting requirements has placed a substantial onus on many NFPOs and in certain cases resources were diverted away from the provision of services to cater for the cost of compliance;

¹⁴⁵ Submission from Sussex, op. cit., p. 12.

¹⁴⁶ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 76.

¹⁴⁷ *ibid.*

- the NFPO must be accountable to the community consumer/user. As consumers are not parties to the agreement between government agency and NFPOs, they may have no right of legal recourse against the service provider for irregularities in service provision etc;
- the government agency to be accountable to the service provider. The tender process should be transparent with explicit and understandable performance measures that must be efficient and effective. The government agency must be absolutely clear about the nature and extent of the welfare services to be rendered after having taken into account the needs of community users, which should have evolved through consultation and collaboration with all stakeholders;
- the government agency to be ultimately accountable for the efficient and effective delivery of social and community services, standards of performance and overall costs. Full accountability cannot be delegated by government agencies to the service provider. The responsibility remains with government.¹⁴⁸

Sussex¹⁴⁹ described an alternative reporting methodology:

One of the alternatives that could be used with regard to reporting requirements as against when you are measuring the service that is being provided against a strategic plan and targets, it may be rather than writing copious reports about all kinds of different things about the clients and the kind of services they were provided with, and the like. It may be more useful to have a default reporting mechanism so that agencies basically just tick boxes if they are meeting the required targets and that they only actually provide additional information if you think there is a problem or that the agency is not meeting the particulars of a given objective. That works well in some other funding areas.

¹⁴⁸ House of Representatives Standing Committee on Family and Community Affairs, op. cit., p. 77.

¹⁴⁹ Submission from Sussex, op. cit., p. 6.

CHAPTER SIX

CONCLUSION: CONTRACTING OUT IN THE PUBLIC INTEREST?

The consequences of a decision to contract out a service may be difficult to quantify as in the case of potential loss of service to community users where a particular service provider was unsuccessful in its tender bid. The real issue relates to a difficulty in quantifying the loss of a specific service to clients or loss of community involvement as opposed to the economic concept of measurable dollar benefits saved.

While State and Territory governments adopt an economic perspective viewing public interest as a quantifiable efficiency dollar gain to the economy as a whole, NFPOs regard distributional equity as being more important than economic efficiency. The process of NCP does not resolve the fundamental problem of ensuring equity between economic efficiency and social and environmental objectives.

Public interest is viewed as the effect of a particular activity on the community as a whole by taking into account certain factors in weighing benefits against costs, but which provides/contains no mechanism for weighing non-monetary costs and benefits, which are subjective in nature and involve value judgements or principles.

The principles of accountability, transparency and partnership and the issues of choice and quality of service would be perceived as positive indicators of public benefit by the social and community service sector. Recommendations based on these principles are more likely to be accepted than recommendations based on economic gains to the community as a whole, through improvements in efficiencies. A public interest consideration based on economic efficiencies that does not take into account social welfare and equity considerations, regional growth, consumer interests and efficient allocation of resources, is less likely to be favourably considered.

As evident from this inquiry, competitive tendering/contracting out has both positive (accountability and transparency) and negative (manner of implementation) impacts on social and community services delivery. While transparency and accountability has improved decision making, additional attention should be directed at transparency, in particular, full disclosure of all items comprising the fixed contract price. The need arises for closer collaboration and consultation between stakeholders on determining realistic costs for agreed standards of service and for government to disclose the extent to which its contribution covers the full cost of providing the service.

The negative impacts of tendering have as their core, a reduced level of collaboration and information sharing between government and NFPOs and between NFPOs themselves, together with a reduction in the number of small community NFPOs.

The breakdown in the relationship between government and NFPOs is essentially related to the implementation of inappropriate strategies and future rectification strategies would need to address partnership, transparency (open and fair) process with built-in safeguards to protect community services.

WA Network¹⁵⁰ stated that:

Although there is a requirement under the HACC legislation for funds to be allocated according to the needs identified by a Business Plan, this process is considered by agencies to be seriously flawed. Limited meaningful consultation with providers occurs in terms of input to this plan.

Anglicare Australia¹⁵¹ recommended the following ways to improve the relationship between government and NFPOs:

- government departments should implement and practise policy statements relative to consultation and collaboration between funders, purchasers and service providers and their clients. The inclusion of service providers and clients relates specifically to addressing client needs. Consultation and collaboration infers partnership with emphasis on the recognition of different skills, experience, intellectual and physical assets and financial resources contributing to the partnership. Part of the process involves placing a value on contributions;
- the level of control exercised by government over NFPOs should satisfy legitimate accountability demands without exceeding the bounds of establishing reasonable requirements for monitoring purposes;
- terms and conditions of fixed period contracts should be complied with by both purchaser and provider and not unilaterally varied without reference to the other contracting party;
- the government should recognise joint intellectual property arrangements which should be a standard requirement for all contracts.

Administration costs are further increased by inadequate implementation strategies that are directly related to inconsistent tender requirements. To minimise administration costs, there should be:

- consistent tender requirements across, *inter alia*, government departments;
- rationalisation of reporting requirements, which should include only those details absolutely necessary for monitoring purposes;
- established common data collection systems; and
- a greater time period between advertising of tenders and closing date.

Amongst small NFPOs, difficulties are encountered with regard to the complex financial and legal accountability requirements of government agencies and government should therefore provide funding for training programs.

The demise of small organisations has been more apparent in Commonwealth funded programs, in particular, rural and regional areas.¹⁵² Government should fund research with the object of determining:

- reasons for the negative impact on small NFPOs; and

¹⁵⁰ Submission from the WA Network of Community Based Home Care Services Inc., op. cit., p. 6.

¹⁵¹ Neville, A. (1999), op. cit., pp. 45 et seq.

¹⁵² *ibid.*, p. 47.

- the characteristics of small NFPOs that serve to explain the reasons for success in meeting clients needs and to retain those characteristics in the event of a merger or joint venture with larger NFPOs.

While the market orientated approach has expanded the range of service types available, consumers have on occasion been denied choice (a function of access) because of the demise of certain small organisations.

It appears that reduced funding has forced NFPOs to restrict consumer access by the introduction of restrictive eligibility criteria. If NFPOs are forced to overlook certain needs on the basis that other consumers have higher needs, the question of funding adequacy needs to be addressed.

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APPENDIX ONE**SUBMISSIONS RECEIVED**

Date		Organisation
30 March 2000	Mr Alan Austin	Southern Avon Telecentre
31 March 2000	Mr John Lynas	Individual submission
7 April 2000	Mr Rober Fisher Director General	Family and Children's Services
28 April 2000	Mr Brian Middleton Treasurer	Friends of the Cape to Cape Track Inc.
4 May 2000	Mr Bob Neville Coordinator	Bloodwood Tree Association Inc.
31 May 2000	Mr Patrick Walker Chief Executive	Ministry of Fair Trading
30 June 2000	Mr Stephen Hall Coordinator	Sussex Street Community Law Service Inc.
10 July 2000	Ms Vanessa Harvey Coordinator on behalf of Board of Management	WA No Interest Loans Network Inc.
11 September 2000	Ms Katie Hill Executive Officer	WA Network of Community Based Home Care Services Inc.

APPENDIX TWO

THE INTERNATIONAL CLASSIFICATION OF NON-PROFIT ORGANISATIONS

Group Number	Group	Subgroups
1	Culture and Recreation	Culture and Arts Recreation Service Clubs
2	Education and Research	Primary and secondary education Higher education Other education Research
3	Health	Hospitals and rehabilitation Nursing homes Mental health and crisis intervention Other health services
4	Social Services	Social services Emergency and refugees Income support and maintenance
5	Environment	Environment Animals
6	Development and Housing	Economic, social and community development Housing Employment and training
7	Law, Advocacy and Politics	Civic and advocacy organisations Law and legal services Political organisations
8	Philanthropic Intermediaries & Voluntarism Promotion	Philanthropic intermediaries
9	International Activities	International activities
10	Religion	Religious congregations and associations
11	Business and Professional Associations, Union	Business and professional associations, unions
12	Not Elsewhere Classified	

