

Linking Australian Government services



Centrelink

Submission to the Productivity Commission

Current purchaser/provider arrangements between Centrelink and its Client Departments

Centrelink was established to achieve a split between policy and its implementation. This split is supported by purchaser / provider arrangements. The relationships between purchasers and Centrelink, as a provider, are formalised in Business Partnership agreements which include protocols outlining outcomes, strategies and performance measures which the purchaser requires of the provider.

The purchaser / provider relationship focuses on the business models and strategic outcomes required to achieve program outcomes. These contractual arrangements create a more business like approach with a focus on price (cost), outcomes and quality.

Implicit in purchaser / provider relationships is the concept of value for money. Centrelink's Client Departments have involvement in Centrelink's costing processes through:

- business assurance processes (eg Involvement of clients in development of Activity Based Costing methodology);
- joint costing review processes; and
- development of future funding models.

All initial costings and reviews of costings involve Client representatives and Centrelink process and financial experts. One of the key roles of the provider is to provide options and contingencies to the purchaser to ensure that they are able to make the most informed decisions. When there is a need to achieve additional outcomes without additional funding Centrelink and Clients collaborate to ensure that the Governments outcomes can be met in the most appropriate manner.

Purchasing agencies require reliable and readily available data from providers to inform the development of strategy and policy, and also to be assured of the application of proven costing methodologies. It is necessary to facilitate the shift to output costing to inform business pricing arrangements as this allows greater awareness of cost drivers and the full costs related to the provision of services on behalf of a purchaser. Centrelink is further developing its Activity Based Costing methodology to provide data to support its costings. Activity Based Costing (ABC) provides a view of the total cost of outputs, and the methodology of ABC has been refined with the input of a range of stakeholders, including Centrelink's client departments. To further assurance of value for money purchasers and providers can engage in benchmarking of costs. Centrelink engages in internal and external cost and process benchmarking to ensure that as a provider, its service delivery meets best practice expectations.

Benefits of purchaser / provider arrangements

There are a range of benefits to each party that are inherent in the development of purchaser / provider relationships.

For Client Departments, as purchasers, benefits include:

- their involvement in ongoing discussions regarding strategies for service delivery with the provider;
- their ongoing involvement in business pricing discussions and costing reviews;
- the involvement of the provider in discussions of innovations in service delivery processes and practices;
- a focus on service delivery which better enables the development and refinement of policy; and
- the development of agreed models and data which guide negotiations.

For a provider, such as Centrelink, there are also benefits which include :

- The capacity for strategic and operational cost management;
 - ie ability to understand costs of the business at all levels of the organisation
- Business management;
 - ie the ability to manage issues related to the development and maintenance of business through clarity of boundaries and responsibilities
- Accountability;
 - clarity of outcomes and performance indicators
- Efficiency;
 - efficiencies can be sought within the strategies agreed to enable investment in capability
- Internal transparency;
 - accessibility of information to internal stakeholders to enable better decision making and performance improvement

There are additional benefits to both parties including :

- Transparency of arrangements;
- Accountability in relation to achievement of outcomes and costs;
- Openness in negotiations; and
- Achievement of a more open and business like relationship between purchaser and provider.

Challenges related to developing purchaser / provider relationships

For both the purchaser and provider there are also a range of challenges that must be met to ensure that the relationship achieves the optimum outcomes. For Client Departments, as purchasers, the challenges are to :

- Establish clearly specified outcomes and key performance indicators;
 - this enables a clearer accountability framework for the purchaser and provider to operate within, and enables a feedback loop about the issues that are integral to the relationship. Ill defined outcomes and performance expectations inhibit the capacity for either party to manage the relationship and outcomes effectively.
- Develop strategies that encourage innovation and efficiency in service delivery; and
 - rather than focus on controlling process and task related practices purchasers need to encourage the partnership view of achieving efficiencies and innovation, and harness the ideas and options generated by or with the provider. This also furthers the purchaser's ability to focus on outputs rather than inputs.
- Include the business knowledge of service provider in policy formation.
 - service providers have additional information which can support purchasers in exploring and determining customers needs and issues which are being reflected by the community.

For Centrelink, as a provider, the challenges are to :

- Provide performance information which allows clients to monitor and manage achievement of relevant outcomes;
 - providers must ensure that purchasers have access to information that adds value to decision making and enables enhanced accountability.
- Focus on scrutinising high cost areas with a view to possible process re-engineering; and
 - a clear view of cost enables the purchaser and provider to understand the total costs of delivering upon the agreed outputs. Within the public arena, continuing efforts to achieve value for money are inherent in both purchaser and provider roles.
- Meet key performance indicators as established in joint Business Partnership Agreements.
 - in this contractual relationship the capacity for the provider to meet those expectations is central to it holding its position in the service delivery market, and maintain and building its business with existing and new clients.

Another challenge for both Client Departments and Centrelink, purchaser and provider, is to prevent complexity of relationship from affecting responsiveness and effective decision making.