
8 Commissioning family and community services

Key points

- Family and community services are not delivering the best possible outcomes for the people who use them. Problems include service gaps, duplication, poor coordination between service providers, excessively prescriptive contracts and short-term funding.
- Family and community services are not well-suited to the widespread introduction of greater user choice at this time. Instead, governments should focus on practical reforms to improve their stewardship of family and community services — the way they plan the system of services, select providers on behalf of users, and contract services so that users are at the centre of service provision.
- The recommendations include that governments should:
 - analyse the characteristics and needs of the service user population
 - identify the outcomes that governments are seeking to achieve through family and community services
 - develop service plans for each region and for services for people who have complex needs
 - publish a rolling schedule of upcoming tenders and allow enough time for service providers to develop responses to tenders
 - develop frameworks to measure service providers' contributions to service user outcomes and use this information in service planning, provider selection, contract management, evaluation and ongoing improvement
 - evaluate service providers, programs and systems, publish the lessons of these evaluations, and release de-identified data on family and community services
 - increase default contract terms to seven years, with enhanced safeguards, to achieve a better balance between funding continuity for service providers and periodic contestability
 - provide payments to service providers that reflect the efficient cost of service provision.

Family and community services are not delivering the best possible outcomes for the people who use them, their families, or for governments that fund them. Governments could improve outcomes for service users by making practical reforms to the way they plan the system of services, select providers and manage contracts with service providers (table 8.1).

Table 8.1 Overview of proposed reforms to family and community services

All reforms are directed at the Australian, State and Territory Governments

<i>Proposed reforms</i>	<i>Timeframe</i>	<i>Potential costs and benefits</i>
Systematic service planning		
<p>Recommendation 8.1 Build on existing initiatives and data on the characteristics of the service user population and the service provider base. Develop service plans to coordinate services and address community needs. Identify outcomes for family and community services.</p>	Ongoing	<p>Costs of data collection, stakeholder consultation and analysis.</p> <p>Services that better address user needs, better service coordination for people with complex needs.</p>
Processes for selecting service providers		
<p>Recommendation 8.2 Design criteria for selecting service providers that focus on their ability to improve outcomes for service users and not discriminate on the basis of organisational type.</p>	As soon as practicable	<p>Costs of data collection and analysis.</p> <p>Better outcomes for people using services; more efficient resource allocation.</p>
<p>Publish rolling schedules of upcoming tenders. Allow sufficient time for providers to prepare considered responses, including the development of integrated bids across related services.</p>	As soon as practicable	<p>Potential to increase collaboration between providers.</p>
Performance frameworks		
<p>Recommendation 8.3 Develop indicators of wellbeing outcomes for family and community services, for use in provider selection, performance management and provider, program and system-level evaluations.</p>	24 months	<p>Governments and service providers would need to expand their capabilities in data management and analysis.</p>
<p>Recommendation 8.4 Monitor the performance of providers in achieving outcomes for service users, and evaluate service providers, programs and systems in ways that are commensurate with their size and complexity. Proactively support the sharing of data between governments and departments, and the release of de-identified data to service providers and researchers.</p>	<p>As soon as practicable</p> <p>As soon as practicable</p>	<p>More information about the effects of services on people's wellbeing would support system planning, provider selection and the effectiveness of services.</p>
Contract management practices		
<p>Recommendation 8.5 Increase default contract lengths to seven years. (Exceptions could be made, such as for program trials but justification should be published.) Ensure contracts contain adequate safeguards in any cases of failure by providers.</p>	As existing contracts expire and new contracts commence.	<p>Less flexibility for governments to change funding priorities.</p> <p>Greater continuity facilitates investment by providers in service quality and gives users more continuity of service.</p>
<p>Recommendation 8.6 Provide payments to providers for family and community services that reflect the efficient cost of service provision.</p>	As existing contracts expire and new contracts commence.	<p>Costs of data collection, analysis and contract design.</p> <p>More equitable access and increased capacity for providers to invest in service improvement.</p>

8.1 Context and scope

What are family and community services?

Family and community services address a range of circumstances, including crisis support, transitional support, building capability, early intervention and prevention. Examples include services for family support, homelessness, family and domestic violence, alcohol and other drugs and settlement support. Governments fund family and community services to improve the wellbeing of people at risk of hardship or harm. The goal of these services is to achieve outcomes for service users — changes in knowledge, skills attitudes, values, behaviour, condition or status — that increase their wellbeing (PC 2010).

Service provision is dominated by the not-for-profit (NFP) sector, although government remains a direct service provider in some areas. For-profit entities are sometimes specifically excluded from government funding. Governments provide the majority of funding for NFP service providers, largely through contestable processes where providers ‘compete’ periodically for funding to deliver services.

The focus of this inquiry is family and community services where governments select providers, user choice is limited and funding is often not linked to outcomes. Consistent with the terms of reference, recommendations focus on services commissioned by the Australian Government and State and Territory Governments. Local governments also commission family and community services and recommendations may also be applicable to them.

Funding for services

Annual funding of family and community services by the Australian, State and Territory Governments totals several billion dollars. The large number of programs and funding lines across jurisdictions and government agencies makes estimating a total difficult. As at the end of April 2017, two significant components of Australian Government expenditure — the Department of Social Services (DSS) Families and Communities Programme and the Department of Health’s grants for mental health programs — had active grants worth about \$2.9 billion and \$2.2 billion respectively (Department of Health 2017f; DSS 2017d). At the State and Territory Government level, two service areas — expenditure on family support services and homelessness (funded under the National Affordable Housing Specific Purpose Payment and the National Partnership Agreement on Homelessness) was \$789 million and \$764 million respectively in 2015-16 (SCRGSP 2017).

Government funding to NFP organisations whose main activities were in social services totalled \$7.2 billion across over 5000 organisations in the 2015 reporting year (ACNC 2016). (This figure includes some activities, such as disability services, which are outside the scope of family and community services.) Larger providers receive funding through many agreements with several governments. For example, Mission Australia (sub. 277) stated that it delivers 589 programs and services, and receives funds from 41 government agencies as well as foundations and trusts.

Changes over time: from charity to commissioning

Prior to the 1970s many of the family and community services that are now funded by governments were provided by charities, funded via donations (PC 2010). Governments have substantially increased their funding for family and community services since the 1970s — funding that, for the most part, was allocated to NFP bodies as general support. Since the 1980s, governments have adopted more competitive funding models, including ‘purchase of service contracting’, which involves ‘government agencies contracting with a provider to deliver a service to an eligible group of clients in exchange for money’ (PC 2010, p. 323).

These changes to funding models and the relationships between governments and service providers recognise that governments are ultimately responsible for the outcomes of services delivery. Funding models that reflect the objective-driven design of government spending programs have, however, created some tension between government objectives for service provision and the mission-driven purpose of NFP organisations (box 8.1).

Box 8.1 **Tensions in service delivery**

The evolution of family and community services from a charity-driven model to one funded and driven by governments has created tension between governments and the not-for-profit (NFP) sector over the objectives of family and community services. This was identified in the Commission’s 2010 study of *The Contribution of the Not-For-Profit Sector*. Participants in that study identified ‘inherent tensions between a market-based approach to the procurement and funding of human services and the characteristics and motivations of community organisations’ (PC 2010, p. 297). These included that ‘purchase of service contracting’ was:

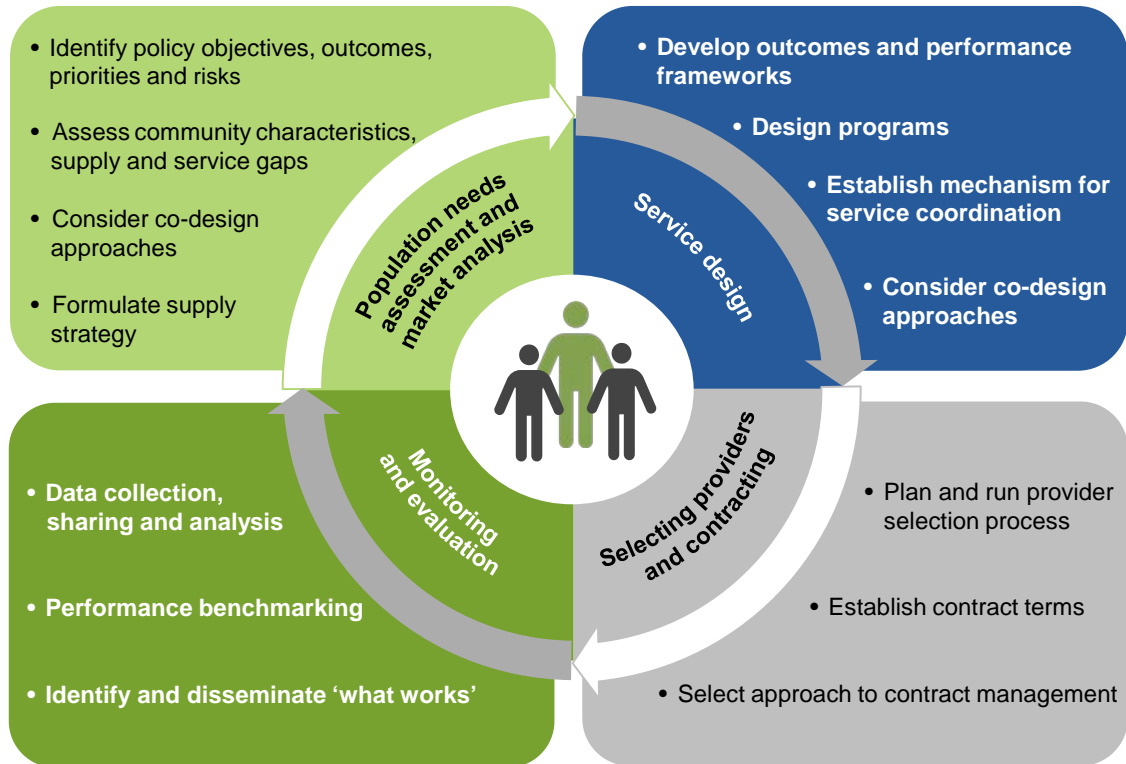
- creating incentives for community organisations to take on the practices and behaviours of the government agencies they deal with (or so called ‘isomorphism’)
- distracting NFPs from their purpose thereby contributing to ‘mission drift’
- creating a perception in the community that NFPs are simply a delivery arm of government
- eroding the independence of NFPs in ways that make it difficult for them to remain responsive and flexible to community needs
- being inherently biased in favour of large organisations and thereby contributing to a loss of diversity in the sector. (PC 2010, pp. 309–310)

As the Commission noted in the study report, several submissions to this inquiry also identified a tension between the value of supporting not-for-profit organisations to pursue a positive (but often broad and unmeasurable) social mission, and funding models that are primarily focused on providing services to improve the wellbeing of individuals and their families (GSANZ, sub. 282; St Vincent de Paul Society National Council, sub. 285). In considering these issues, it is important to recognise that governments are responsible for, and set the objectives of, family and community services. Providers can choose to tender for funding that aligns with their mission, but governments have a responsibility to put the interests of service users at the centre.

In recent years many governments have endorsed ‘commissioning’ as their preferred approach to stewardship of family and community services. Commissioning is a cycle that involves planning the service system, designing services, selecting, overseeing and engaging with providers, managing contracts and undertaking ongoing monitoring, evaluation and

improvement (figure 8.1). Governments often use contestable approaches in the provider selection stage to allocate funding, although in some cases governments use closed or restricted tender processes.

Figure 8.1 The commissioning cycle



Sources: Based on Department of Health (2015); Dickinson (2015); NHS (2016); Routledge (2016).

Governments have not always successfully translated the principles of commissioning into effective practice. For example, the Brotherhood of St Laurence stated that ineffective commissioning was a barrier to service integration at one of its service hubs. It identified the problem as:

Lack of integration at the level of commissioning as a consequence of policy silos, both between departments and between local, State and Commonwealth Governments. An incoherent patchwork of different funding priorities and commissioning arrangements creates barriers for providers, even those in the same service area, to develop closer working relationships, let alone integrate their service offers. (sub. 479, p. 19)

There has been some innovation in commissioning, including the development of social impact investment (box 8.2). This approach has demonstrated the benefits of clearly articulating the intended outcomes of family and community services, and having a clear focus on, and understanding of, the service user. Experience to date has also demonstrated the limitations of social impact investment models (discussed further in section 8.3).

Box 8.2 Social impact investment

The Australian Treasury defined social impact investment as ‘investments made with the intention of generating measurable social and/or environmental outcomes in addition to a financial return’ (2017b, p. 8). It includes: social enterprises, social impact investment funds and social impact bonds. A social impact bond is a form of outcomes-based funding with a:

... financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organisations, and investors to pay for the delivery of pre-defined social outcomes. (Galitopoulou and Noya 2016, p. 4)

This approach has required governments and providers to identify and articulate the outcomes funding is designed to achieve for individual service users and to consider the extent to which outcomes truly reflect provider effort. Social impact investment models emphasise the importance of governments having a clear focus on, and understanding of, the service user.

Use of social impact bonds for family and community services is growing in Australia. The NSW Government funds two social impact bonds for family support services (NSW Government 2017b). Other bonds are being developed to reduce homelessness, over-representation of Indigenous children in out-of-home care and harmful use of alcohol and other drugs in Victoria, Queensland and South Australia (Donaldson 2017; Pallas 2016; 2017).

As an example of how social impact bonds can operate, under the NSW Government’s Resilient Families social benefit bond, payment is calculated based on the number of children involved in the program that enter out-of-home care or have a risk assessment or a helpline report, relative to a control group of similar children that did not enter the program. Funding for the service is \$10 million and returns to investors will be paid at the end of the five-year program in 2018 (Benevolent Society 2015).

Interim evaluation reports for the two NSW bonds have found that the Newpin bond is ‘achieving a higher [family] restoration rate than other interventions’ (Urbis 2016b, p. ii) and that the Resilient Families bond has had mixed success to date (ARTD Consultants 2016).

Social impact investment is only feasible when all parties are able to agree on outcomes that are directly linked to provider actions, and that can be achieved and measured in a timely manner. These conditions apply in only a limited range of services. Moreover, social impact bonds are complex, and the design and implementation of bonds is costly.

The upfront transaction costs for establishing a bond are high — not just in terms of the range of experts a not-for-profit organisation is required to contract in [order] to set up such a complex financial instrument (which in itself is considerable) — but also the level of meaningful engagement required between the parties to the transaction to fully understand all aspects of the arrangement. (Benevolent Society, sub. 457, p. 4)

The prerequisites of measurable outcomes that are linked to services as well as the cost and complexity of designing the bonds will limit the applicability of social impact investment to a niche of family and community services. However, the approach can provide lessons for the broader commissioning system, including the benefits of defining outcomes and evaluating service provider performance.

Who uses family and community services?

Hundreds of thousands of people access family and community services each year. The number of programs and services makes it difficult to estimate the total number of people who use these services but public information is available for some services, including that:

- about 279 000 people received homelessness services in 2015-16, of which:
 - 106 000 were experiencing family and domestic violence
 - 72 000 had a mental health issue (AIHW 2017b, 2017h)
- about 284 000 people participated in Australian Government funded Community Mental Health activities in 2014-15¹ (DSS 2016b)
- about 115 000 people received alcohol and other drug treatment in 2014-15 (AIHW 2016c)
- about 27 000 children commenced intensive family support services in 2015-16 (SCRGSP 2017).

People who use family and community services have a range of needs, and the costs of providing services vary significantly depending on their characteristics. Some people need assistance to address a temporary crisis or transition, others have complex needs and require multiple services over a long period. Often, a small proportion of service users has very high service requirements and accounts for a large share of the total cost of some services. For example, in its position paper on the costs of the National Disability Insurance Scheme, the Commission noted that ‘while only 18 per cent of packages approved from 1 July 2016 are more than \$100 000, they account for 56 per cent of scheme costs’ (PC 2017c, p. 16).

User choice

The characteristics of the users and, in some cases of the service itself, mean that user choice of service or provider will not be appropriate for all people (such as people with severe cognitive impairment) and in all circumstances (such as responding to emergencies). However, many people can exercise some degree of choice over the services they receive. Governments have developed phone and web-based service directories to help these people navigate the service system, such as the Australian Government DSS Carer Gateway and the Queensland Government’s oneplace (DSS 2016d; Queensland Government 2017).

There can be other barriers to overcome for service users able to exercise choice. One is that there is no entitlement to a level of service, let alone any entitlement to choose a provider — providers often have discretion over which clients they serve and what services they provide. Another barrier is the availability of services. Services are provided at no charge to service users and demand exceeds supply by a wide margin in many services. For example, in

¹ Some of the programs that make up these activities are transitioning to the National Disability Insurance Scheme (DSS 2016c).

2015-16 approximately 100 000 requests for specialist homelessness services were unable to be met (AIHW 2017i).

In some areas of family and community services (such as some carer support services) governments have taken steps to increase user choice. This is a positive step for the users of those services. However, family and community services are not well suited to the widespread introduction of greater user choice at this time. Instead, governments should focus on practical reforms to improve their stewardship of family and community services — the way they plan the system of services, select providers on behalf of users, and contract services so that users are at the centre of service provision.

8.2 Problems with the current arrangements

There is considerable scope to improve family and community services across the five attributes of effective service provision identified in chapter 1. The Commission identified many problems with the sector in its 2010 report on the *Contribution of the Not-for-Profit Sector* (PC 2010), including:

- [that] governments are not making the most of the knowledge and expertise of NFPs when formulating policies and designing programs
- excessively short-term contracts
- tendering, contractual and reporting requirements that are disproportionate to the level of government funding and risk involved
- the sheer volume of contracts that community-based organisations have to manage.

The Community Services Industry Alliance (sub. 410, p. 8) stated that problems identified in that study have persisted, including: ‘extensive reporting’, ‘short term heavy-handed contracts’ and ‘micro-management’. The following sections set out the main problems that the Commission identified in the sector. The Commission’s recommendations to help address these problems are presented in section 8.3.

Better understanding the needs of the service user population

Understanding the population and the services it needs is essential to making sound decisions about what services should be provided, where and to whom. This includes understanding the number of people that are facing hardships that could be addressed through family and community services, their characteristics, and the distribution of needs within the service user population — from straightforward, one-off assistance through to ongoing coordinated assistance.

Governments currently do not have the information they need to adequately understand the needs of the service user population. This lack of knowledge undermines governments’ ability to plan services effectively and to prioritise between users. It contributes to

duplication and uncoordinated service delivery that lead to inefficiencies and inequitable access, and are barriers to achieving the best outcomes for the largest number of people. Children’s Ground (sub. DR562, p. 2) observed that the lack of systematic planning can have adverse effects on service users.

Complex economic and social disadvantage requires engaging with multiple government and non-government services to have needs met. People are required to ‘share their story’ with every new service and undertake additional assessments to meet strict criteria.

The effects of the lack of planning are magnified by Australia’s federal system. Several different agencies across different levels of government are responsible for commissioning family and community services, but there is no process for coordination between them. For example, the Brotherhood of St Laurence (sub. 479, pp. 19–20) stated:

An incoherent patchwork of different funding priorities and commissioning arrangements creates barriers for providers, even those in the same service area, to develop closer working relationships, let alone integrate their service offers. A recent request for EOIs [expressions of interest] to deliver a new state government employment program nominated several sites, apparently unaware that the same locations were already served by another, almost identical, state-funded program.

Processes to select providers

Contestable selection processes can be an effective way to identify the providers that are best placed to achieve outcomes for service users. However, participants identified some shortcomings in selection processes.

Scheduling and length of tender rounds

Governments generally only allow four to six weeks for service providers to respond to selection processes. This is not long enough to develop a high-quality proposal, or for providers to formalise collaborative arrangements to take advantage of synergies. Several inquiry participants stated that the time available to submit tender applications can be a barrier to providers forming consortiums to jointly tender for contracts, and can undermine informal collaboration between service providers.

A key problem with the processes of the Going Home Staying Home (GHSH) reform of the NSW homelessness services sector, was the short period for tender proposals combined with an expectation of collaboration because the number of contracts being awarded was reduced. What occurred in some districts is that services located close together that had previously cooperated, put in competing tenders that led to a break-down in the relationships between the services. Arguably more time would have allowed these services to negotiate cooperative arrangements. Also, in cases where such arrangements were made, many of these were unstable because the short time-frames had not allowed organisation to form a sound basis for cooperation and resolution of differences. (Yfoundations, sub. DR497, p. 14)

Short application periods can also reduce the extent of contestability in family and community services commissioning processes. For example, Southern Youth and Family Services (sub. 234, p. 6) stated that smaller providers are ‘more compromised by tight timeframes’ than larger providers. Tender processes that inadvertently lock out smaller providers could undermine the benefits of contestability.

Problems with short tender application periods are compounded by a lack of accurate forward schedules of commissioning processes and tenders. Robert Kerr (sub. 2, attachment 1, p. 8) stated:

... time allowed for tendering is typically two to four weeks, which inhibits proposed program development. And the forward schedule of tenders is often incomplete or out of date.

Selection processes focus on the wrong things

Many participants argued that governments tend to focus on the cost of service delivery and the ‘quality’ of tender applications rather than the ability of providers to deliver outcomes for users. This creates incentives for service providers to direct their energies to a relevant but narrow issue (cost) and a more or less irrelevant issue (tender preparation), rather than focusing on achieving outcomes for service users (and demonstrating that they are able to achieve outcomes).

Over recent years, the need for more professional tender writing has led to increased investment in submission preparation. Greater competition runs the real risk of this being taken to an even higher and more costly level. And that doesn’t necessarily lead to more effective outcomes, just fancier, more detailed and more expensive tender submissions. (CEWA, sub. 403, p. 3)

When the government is the customer, a well presented and well thought through funding application or tender counts for much more than years of success in delivering real outcomes within communities. This kind of market encourages more investment in consultancy firms to write funding applications. It does not encourage increased investment in services improvement to achieve better outcomes. (CCA, sub. 193, p. 4)

Some inquiry participants suggested that smaller providers are disadvantaged by current commissioning practices, and that processes that favour larger organisations can threaten the survival of smaller providers and reduce diversity.

The aim of government should be to maintain the diversity of expertise that exists in the sector. Unfortunately there is a tendency of large government departments to prefer working with large not-for-profits. (Yfoundations, sub. 438, p. 5)

The [WA Department for Child Protection and Family Support] has observed that competitive tender processes can have smaller organisations experience difficulties competing for funding, leading to mergers with larger organisations. This has reduced options for service provision. (WA CPFS, sub. PFR386, p. 4)

The Commission notes these concerns and agrees that commissioning practices should not unreasonably disadvantage smaller (or larger) providers. It is important, however, that governments’ primary focus is on ensuring the effectiveness of the services that are

delivered. Diversity should be supported where it contributes to improved outcomes but not for its own sake.

Performance frameworks

Government systems for collecting and harnessing information on ‘what works’ (and does not work) to achieve outcomes for service users remain underdeveloped. The lack of evidence is an impediment to planning the service system to achieve efficient resource allocation and selecting the best service providers to deliver quality services to people experiencing hardship. Where governments have collected evidence for performance monitoring and accountability, they have tended to focus on inputs and (in some cases) outputs, rather than outcomes for service users.

Contract management practices

Contract lengths

Contract end dates create certainty for governments and service providers. They also give governments opportunities to ‘test’ the market at regular intervals to ensure that they are getting the best possible services. However, current contract lengths (which typically default to three years or less) are too short. Three-year contracts do not give service providers adequate funding stability. Short-term contracts can also be detrimental to service users because service providers spend too much time seeking short-term funding, which is a costly distraction from delivering and improving services. Short contracts can be an impediment to service providers developing stable relationships with service users, hindering service provision and the achievement of outcomes for users. The lack of certainty inhibits planning, collaboration between service providers, innovation and staff retention (box 8.3).

Box 8.3 Participants’ views on contract lengths

The practice of short-term contracts means that providers operate in a climate of constant uncertainty. Precarious funding militates against collaboration by making providers disinclined to invest scarce time and resources in the effort required to build networks and learn new ways of working. (BSL, sub. 479, p. 19)

... organisations delivering human services need longer-term secure funding, as the current short-term funding model has deleterious effects on service providers’ capacity to plan for and provide community services. (St Vincent de Paul Society National Council, sub. 285, p. 25)

Presently, organisations have little incentive to invest in training and skill development or create career opportunities for their staff as they have little certainty about future funding. This model hampers innovation, and the trial of new strategies and approaches. (ASU, sub. 480, p. 3)

Our main concern here is around funding levels, limited contract terms and their inflexibility. Ultimately, these factors create uncertainty for not-for-profit providers, stifle innovation within the sector, and hinder service provision and outcomes. (JSS, sub. PFR336, p. 13)

A related problem is that governments often renew contracts at very late notice. Uncertainty about whether funding will be renewed affects providers' ability to attract and retain staff, which in turn can negatively affect service users.

Without knowledge of future funding streams, or even whether they will be delivering the same services in the next year services cannot plan for the future, reposition their organisations within the sector, or make large financial commitments. This restricts innovation. It further leads to difficulties in attracting and retaining the best employees, who may be drawn to the employment security of contracts of greater duration than 12 months, or who may seek new employment opportunities due to the fact that their existing contract is due for expiry and funding renewal has yet to be announced. (Council to Homeless Persons, sub. 434, p. 12)

Inflexible contract management

Excessively prescriptive contracts constrain the capacity for providers to respond to the needs of users and are a barrier to achieving the benefits of contestability. For example, the St Vincent de Paul Society National Council (sub. 285, p. 24) stated:

Prescriptive and inflexible contracts are often administratively onerous, resulting in staff spending a disproportionate amount of their time managing reporting systems rather than delivering services. For smaller organisations, these effects can be particularly acute, diverting resources that would otherwise be used in responding to community needs.

Funding is not aligned to the efficient costs of service provision

The costs of achieving outcomes for service users vary across different service needs, user populations, and according to location and the scale of provision. Participants identified service areas where government funding does not always align to the costs of service delivery.

Current funding models for SHS [specialist homelessness services] are based on metropolitan assumptions, and fail to account for the significant time and travel costs associated with providing support services to regional and rural areas. (CHP, sub. 434 p. 6)

A significant and central problem for the community-managed mental health sector with the application of a market-based approach through the NDIS [National Disability Insurance Scheme], has been fitting complex psychosocial support into a price structure that provides a 'general' or efficient price, which has seen the sector not able to provide complex supports within this structure. The costs of service delivery are going to be different dependent on the individual and this will raise the same issues being experienced with the NDIS. (CMHA, sub. DR498, p. 4)

Funding arrangements can constrain a provider's ability to invest and undertake other activities associated with service improvement.

The delivery of quality outcomes for service users is dependent on providers being able to invest in quality management mechanisms. Pricing for disability services have failed to incorporate activities such as performance monitoring, quality assurance, continuous improvement and workforce training, development and planning. (CSIA, sub. 410, p. 8)

Funding levels can also influence service providers' behaviour in ways that reduce service effectiveness. Service providers have incentives to 'cherry pick' clients who are relatively low cost if funding does not cover the efficient costs of providing services to high-needs clients.

Governments' approach to risk management

Currently, governments' approach to risk management in family and community services involves using prescriptive contract terms to manage the risks to government (such as the risk of cost overruns and the risk of governments being blamed for catastrophic failures in services). Managing risks through prescriptive contracts can achieve security for governments, but it can come at a cost — service provision that does not focus on the need to achieve outcomes for service users.

Sturgess (2017) stated that there is a culture of risk aversion among public servants that is driven by governments' audit-focused approach to accountability. Although the Sturgess paper was based on research into government procurement practices in the United Kingdom, inquiry participants agreed that risk aversion in government is an issue in Australia. For example, the Community Council for Australia stated that 'governments and their officials see control as protection against risk' (sub. DR585, p. 11). Children's Ground (sub. DR562, p. 2) stated:

Political cycles means that governments are reluctant to create change, even when they recognise things are not improving, due to the risk of media attention.

Governments' risk aversion feeds into selection processes and contract management, and constrains innovation that would improve service quality and efficiency. For example, the Bridge Youth Service et al. (sub. DR576, p. 4) stated:

The increase in quality standards covering similar issues, particularly in relation to governance, management and appropriate financial supervision, has generated an increase in separate, independent review cycles. The result for agencies like ours is multiple often duplicative reviews, which do little to improve the quality of the service our clients receive.

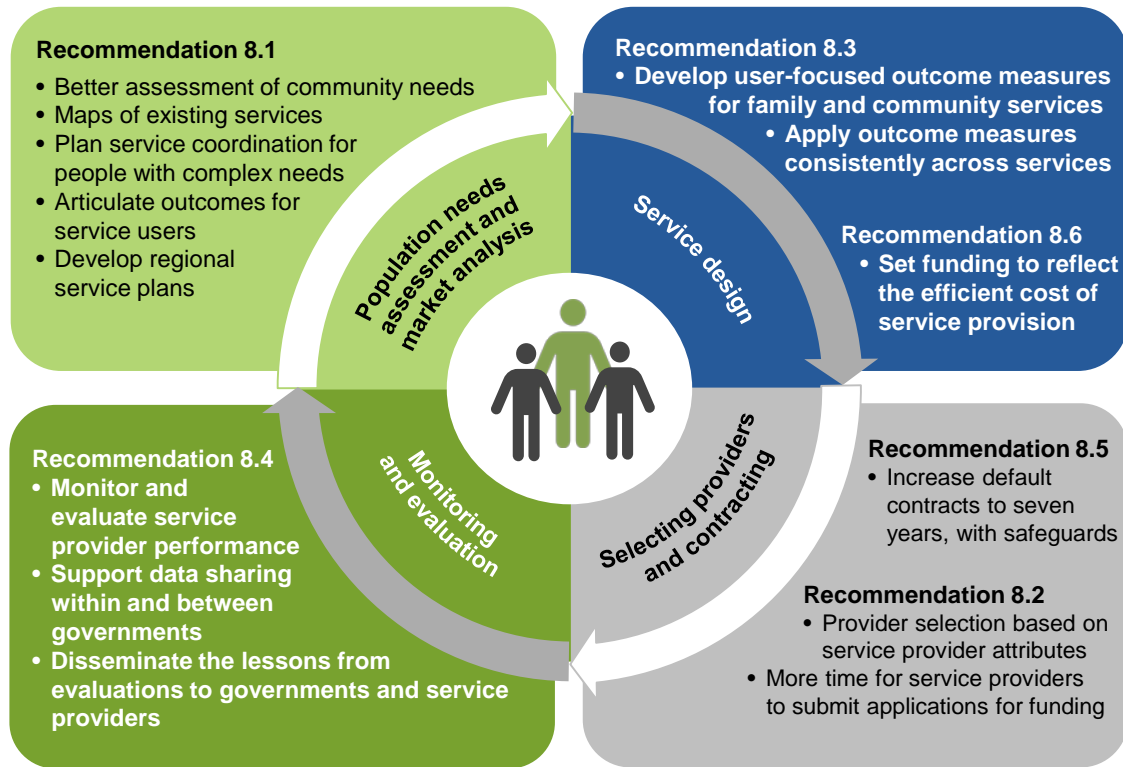
Ultimately, risk averse attitudes that are expressed through prescriptive contract terms have the effect of passing on risks to service providers and service users, who are usually less well placed to manage them.

8.3 Reform directions

Although service providers have achieved positive outcomes for many Australians facing hardship, the family and community services system as a whole has developed in an ad-hoc way. This inquiry presents an opportunity to re-set the system with an overarching plan to achieve better outcomes for service users. Turning the system around to put the focus on the people who use the services will require cultural change across all levels of government.

Governments can begin the journey with some practical changes across all stages of the commissioning cycle (figure 8.2).

Figure 8.2 Reforms to commissioning family and community services



Better understanding the needs of the service user population

To put service users at the centre of commissioning family and community services, governments need to build on existing initiatives and data to understand the service user population and the existing service providers, set clear objectives and plan to coordinate services.

Identifying the service user population and its needs

Governments need to understand the population and its service needs in order to make decisions about what services should be provided, where, and to whom. This includes understanding the number of people that need a service, their characteristics and service needs and the distribution of needs within the service user population (from straightforward, one-off assistance through to ongoing coordinated assistance).

New data and analytical techniques are opening up possibilities for better population analysis. The analysis underpinning the Australian Government's Priority Investment

Approach to Welfare provides one example where a more detailed understanding of the level and intensity of need across the community as whole, and in particular regions and cohorts, can provide a basis for targeting investment in family and community services. The actuarial analysis that was undertaken for the Approach identified the characteristics of people who are likely to have a high reliance on welfare payments across their lives (DSS 2016a). Some participants agreed that better population analysis has promise for family and community services.

Better information on population or cohort coverage and service outcomes is equally important to both improve service access and to enable services to best meet the needs of cohorts and communities. (WACOSS, sub. DR583, p. 6)

There is significant evidence that many identifiable cohorts amongst those experiencing homelessness are both currently underserved compared to their needs, and at a greatly increased risk of experiencing homelessness in the future (and into the long-term). Appropriately designed 'investment approaches' developed in line with consumers' expressed needs, could improve outcomes for service users as well as deliver cost savings into the future, and are worth exploring. (CHP, sub. 434, p. 9)

The NSW Government is using an investment approach to improve the out-of-home care system in its Their Futures Matter reforms. It stated:

The investment approach ensures that effort and funding is focused on providing services which have the greatest social return as well as promoting a cost-effective system. (NSW FACS, sub. 484, p. 12)

Other participants stressed that service providers and other community stakeholders have insights that are not evident from population-level data. The Australian Association of Social Workers stated that ground-level experience is crucial to identifying emerging needs.

Our members' experience is that the exact nature of the community service needed in a location cannot be deduced from demographic data in the same way that need for physical infrastructure can. In the case of services such as schools, there is a clear relationship between the age of a population and the number of schools it will require. By contrast, there is not the same clear relationship with the type of community support services that those children, young people and their families will require. For example, in the instance of housing stress among older single women, the social workers identified this need only through empathic and detailed discussion with women presenting with other needs, such as anxiety and stress, and only after a trusting relationship had been established. The underlying pattern emerged during staff meetings and was confirmed by detailed interrogation of data collected by local government. (sub. DR557, pp. 5–6)

Population analysis, coupled with on-the-ground evidence drawn from service providers and others with local experience or an understanding of particular cohorts, could be used to build a detailed picture of the needs of people experiencing hardship. It could also be used to underpin stronger service design and planning, particularly for people with complex needs who require multiple services on an ongoing basis.

In addition to improving their population-level evidence base, the Commission is recommending that governments work more closely with service providers to build a more detailed picture of the needs of people experiencing hardship. Effective commissioning and stewardship would also involve consultation with other stakeholders, such as local governments, as suggested by the City of Whittlesea (sub. DR519) and Haven Home Safe (sub. DR598).

Identifying service providers and service gaps

Governments need to understand the service provider population to identify gaps and duplication in service provision, and to inform planning for service coordination. Currently governments collect information on existing services, but in an uncoordinated, duplicative and irregular fashion (Southern Youth and Family Services, sub. DR555; The Bridge Youth Service et al., sub. DR576; WACOSS, sub. DR583).

NFP organisations currently collate information about family and community services. For example, Infoxchange manages the Service Seeker directory, which is a searchable directory of social services across Australia, including maps of services in a specified area (Infoxchange nd). WACOSS pointed to an example of using online technology to facilitate timely and comprehensive information collection.

WACOSS has developed a simple, intuitive and accessible interactive directory for emergency relief services that enables service providers to take control of updating their own data. Building on this system it is possible to provide a comprehensive, self-sustaining accessible and up-to-date online directory of the social services to support professional referrers, individuals and families to navigate our complex service system. (sub. DR583, p. 5)

Governments should improve their coordination of data collection and collate and publish maps of existing services.

Articulating user-focused outcomes

The way governments define the outcomes they are trying to achieve sets the parameters for the relationship between service providers and governments.

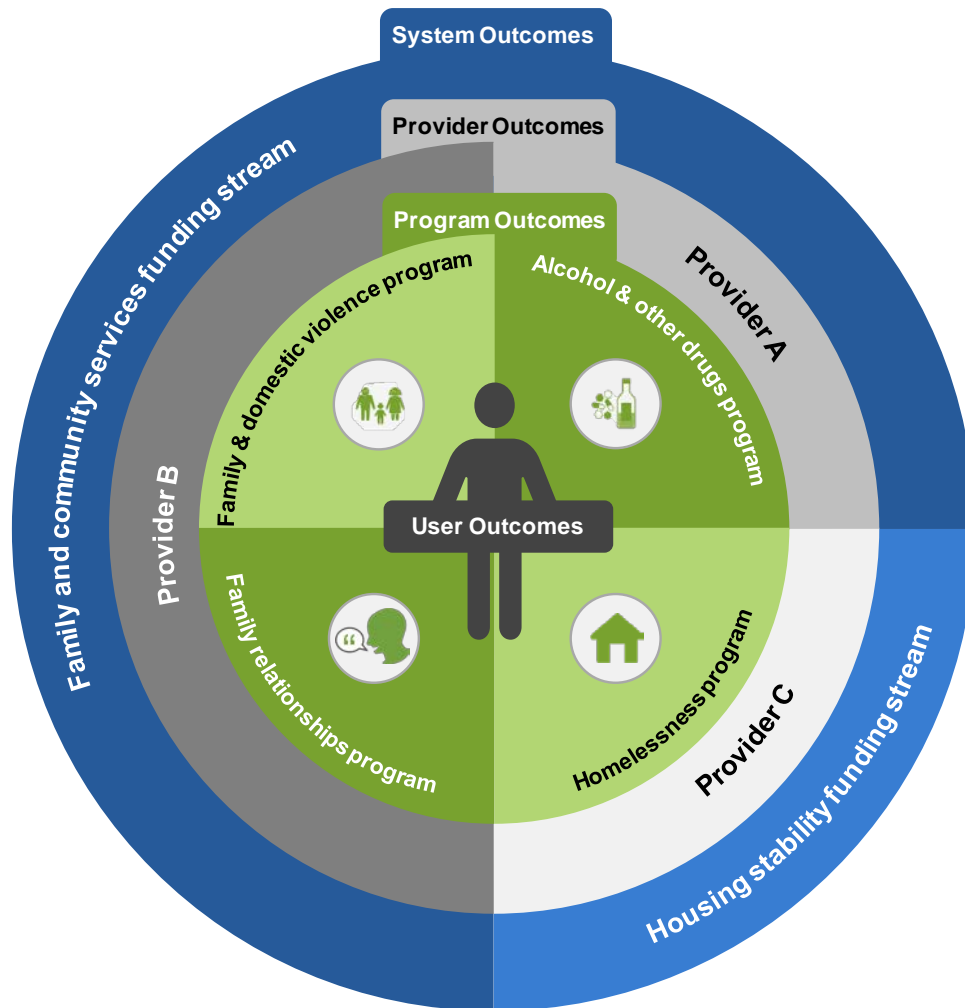
Governments that commission family and community services typically define outcomes for specific funding programs. This program-oriented approach is not consistent with a focus on service users. The system would be more effective in achieving outcomes for service users if governments developed cross-program outcomes frameworks that articulate outcomes at all levels — service user, service provider and program (figure 8.3) — and can be used to track changes in wellbeing at an individual level consistently across services. Family Life (sub. 57, p. 2) captured this in its submission:

Outcomes must be clearly articulated in meaningful terms of improvements and changes for the intended beneficiaries of public policy, whether these beneficiaries are individuals, a particular

group of citizens, or communities and the broader society. We need to be clear about our goals, set outcome targets and measures for tracking our performance towards those outcomes.

Figure 8.3 **How outcomes fit together**

A stylised example of a person who uses services across four programs that are delivered by three providers and funded through two funding streams.



Planning for coordinated services

More effective service coordination could contribute to better outcomes for people with complex needs who can otherwise be at risk of ‘falling through the cracks’ of a service system that is not set up to provide comprehensive, coordinated and ongoing support. Coordination can also reduce the waste associated with duplication. Governments need to ensure that the right mix of services are provided to meet the needs of the community and must also establish mechanisms for service coordination. This will require action on two fronts. First, governments should invest more in planning for services to meet the needs of

people who need multiple, ongoing coordinated services. Upfront investment in service planning could significantly improve outcomes for people with complex needs, and could also lead to medium-term savings for governments through greater efficiency in service provision.

Second, the Australian, State and Territory Governments should work together to establish mechanisms for service coordination. One option would be to allocate responsibility for service coordination to dedicated regional bodies. This already occurs to a limited extent in some family and community services.

- Primary Health Networks have a role in commissioning ‘services within the community mental health sector (which is part of the family and community services sector)’ (MIFA, sub. DR549, p. 3).
- Mallee Track Health and Community Service (sub. DR499) described the ‘multipurpose service model’ in aged care services, which involves pooling funds for services and building on the skills of existing workers to overcome skills shortages.
- WACOSS (sub. DR583, p. 3) stated that regional planning, coordination and service integration might be assisted by ‘the development of Strategic Regional Advisory Councils in Kimberley and Pilbara, and engagement of local community services with regional human service managers in District Leadership Groups to facilitate a collaborative approach to regional services’.
- The Communities for Children program coordinates targeted interventions for children up to five years old in 45 regions. In each region, a non-government organisation is funded as a ‘facilitating partner’ to establish committees and ‘oversee the development of community strategic plans and annual service delivery plans’ (Muir et al. 2010, p. 35). Service providers are funded to undertake the activities specified in the community plans. The Benevolent Society (sub. 457, p. 8) stated that the Communities for Children program ‘provides a good model for effective service coordination’.

These place-based approaches to service planning, commissioning and delivery hold significant promise. However, there is no single model or approach that is clearly suitable to be rolled out across all family and community services throughout the country (the Commission has reached a similar conclusion for service delivery in remote Indigenous communities, discussed in chapter 9). An alternative is for existing State and Territory Government departments to take responsibility for developing regional service plans, with the Australian Government using these plans to inform its own funding decisions. This approach could be lower cost than establishing new bodies, and may impose less of a burden on service providers.

RECOMMENDATION 8.1

The Australian, State and Territory Governments should build on existing initiatives and data to:

- analyse the characteristics and needs of the service user population to assist with system and program design and targeting
- develop and publish data-driven maps of existing family and community services
- identify outcomes for family and community services that articulate the improvements in service users' overall wellbeing that governments are seeking to contribute to through service provision
- develop plans to coordinate services for people who have complex needs
- develop and publish regional service plans to address the needs of people experiencing hardship.

These actions will require ongoing commitment from governments, working in consultation with service users and service providers.

Processes for selecting service providers

Governments need to adjust selection processes to ensure that service providers have enough time to develop and submit their proposals, including developing joint ventures where appropriate. Governments should also develop a better understanding of how the attributes of service providers are related to achieving outcomes for service users, in order to select the mix of providers best suited to delivering the user outcomes they seek.

Scheduling and length of tender rounds

Governments should provide greater certainty about when tenders will be sought by publishing a rolling schedule of upcoming tenders over (at least) the next twelve months. This should be relatively straightforward for existing contracts that have a defined end date. For new programs, governments might occasionally need to slow down the roll-out in order to provide opportunities for providers to develop applications. In the Commission's view, this is a worthwhile trade-off overall, although there could be limited circumstances when urgency means that contracts are awarded at shorter notice.

Once tenders are open, the appropriate length of time to allow for tender applications would depend on the characteristics of each contract. Some inquiry participants commented on past tender processes that they considered too short.

- The 2014 DSS tender round was open for five weeks. Southern Youth and Family Services stated that the tender round 'provided for a stressful, short time-framed and

confusing application process' (sub. 234, p. 7). Anglicare Australia stated that the tender process was rushed and extremely costly for service providers (sub. 445).

- The NSW Government's 'Going Home Staying Home' tender process opened on 27 November 2013 and closed on 7 February 2014 — a period of about ten weeks, including the Christmas period (KPMG 2015). As noted above, Yfoundations (and other inquiry participants) were critical of the tender approach for the reforms.

Tender periods for complex family and community services should be longer than the current normal practice. The Commonwealth Procurement Rules specify a minimum period of 25 days for potential suppliers to lodge submissions (Department of Finance 2017). This period may be adequate for tendering simple services in well-developed markets, but will not elicit the type of well-considered (and often collaborative) proposals needed to improve service effectiveness in family and community services. For these services, a default minimum period of three months would be more appropriate. Governments should also notify providers of the outcome in a timely manner ahead of the commencement of the contract and allow enough time for transition when new providers are selected.

A further positive step would be to coordinate the timing of tenders so that contracts for related services were open simultaneously. For example, governments could agree to open all tenders for family support services in a region at the same time and hold them open for long enough to facilitate consortium bids by local providers.

Selecting providers based on their attributes

The ability of a service provider to deliver outcomes is related to its attributes, including the provider's past performance, size, connection to the local community and governance arrangements. As noted in chapter 2, organisation type — such as whether a provider is for-profit, NFP or a mutual enterprise — is not in itself a good guide to a provider's capacity to achieve outcomes for service users. Many inquiry participants disagreed and argued against any involvement of for-profit organisations in family and community services. Some participants objected to service providers making profits from delivering services to people experiencing hardship (for example, Australian Services Union, sub. DR575; Illawarra Forum Inc., sub. DR550; SYFS, sub. DR555). Others argued that for-profit providers are not able to achieve the wider community benefits associated with volunteerism and pursuit of a broader 'mission' (for example, FRSA, sub. DR554).

The Commission agrees that different organisational forms have different capabilities and underlying motivations and this can influence their alignment with governments' objectives and their operational capabilities. In some situations, one organisational form may be better able to deliver outcomes than another. However, this does not mean that one organisational form should always be preferred. Different organisations should be evaluated on a case-by-case basis and there is no justification for a blanket ban on any type of service provider.

RECOMMENDATION 8.2

To improve processes used to tender family and community services, the Australian, State and Territory Governments should:

- publish a rolling schedule of upcoming tenders over (at least) the next twelve months
- allow sufficient time (a default of three months) for providers to prepare considered responses, including the development of integrated bids across related services
- notify providers of the outcome of tender processes in a timely manner
- design selection criteria that focus on the ability of service providers to improve outcomes for service users
- not discriminate on the basis of organisational type (for-profit, not-for-profit and mutual for example).

Performance frameworks

Governments should develop and apply performance frameworks that are focused on service users and outcomes. They should also strengthen program evaluation and build a learning system for family and community services.

Outcomes measures and outcomes frameworks

Measuring service users' outcomes is the foundation of any performance framework in a user-focused system (CSIA, sub. PFR395; UnitingCare Australia, sub. PFR313). Outcome measures are data that quantify how activities contribute to user outcomes (chapter 2). An outcomes framework identifies the outcome measures that are chosen for each outcome and how the data are to be collected.

One example is the DSS Data Exchange Framework (DEX). DSS collects data on outcome measures that are reported by providers, through user surveys and are collected from research and government datasets. Data on individuals are linked (using a 'statistical linkage key') within the DEX across services, providers and over time. DEX data can also be linked with other government datasets (DSS 2014).

The DEX outcomes framework is based on measuring changes to user wellbeing over time. For example, consider the case of a person seeking assistance with homelessness. Suppose at the beginning of the period, the service provider reports that a user's circumstances align with score 1 for the housing domain, 'significant negative impact of poor housing on independence, participation and wellbeing', and score 2 for the behaviours goal domain. At the end of the case, the provider may report that the user's wellbeing aligns with score 3, 'progress towards housing stability', and score 4, 'moderate progress to date in achieving behaviour goals' (DSS 2014, pp. 25–27). These scores can be used to assess the effectiveness of services for individual service users, cohorts, locations or entire programs.

The Australian, State and Territory Governments have outcomes frameworks either in place or under development (box 8.4). This is a positive step but there is a considerable way to go before user outcomes are identified and measured across all areas of family and community services.

Whilst a transition to an outcomes-based approach is desirable and aligns with the Productivity Commission's discussion to date, there has been little work done to redesign systems, define community service outcomes and enable effective measurement. (CSIA, sub. 410, p. 1)

The challenges of using outcomes frameworks

Several inquiry participants pointed out that collecting data on service user outcomes is challenging.

While service outputs are generally easy to measure in terms of: hours, service events, and time on waiting lists; services outcomes are less tangible though not necessarily outside the scope of measurement. (Baptist Care (SA) Inc., sub. 123, p. 1)

Inquiry participants also identified the challenge of attributing outcomes to service providers, particularly for services that address complex social problems. Outcomes can take many years to achieve and factors other than service provision contribute to changes in a person's wellbeing.

We note, however, that in practice, outcomes-based approaches can be challenging to implement. Program logics tend to oversimplify the antecedents to change, and limit interconnections between a range of outputs from a system of providers. (MIFA, sub. DR549, p. 6)

That the SHS [specialist homelessness sector] Program is one component within a much broader service system and does not have control of the levers to prevent and address homelessness (eg housing, domestic violence, other government reforms) and that any outcomes-based contracting approach needs to be carefully considered in this context. (Homelessness NSW, sub. DR520, p. 4)

Some participants suggested that service providers can game outcomes frameworks, such as by cherry picking clients.

Even though the [Productivity Commission's Draft Report] recommendations consider the process of outcomes-based commissioning in detail, our members have observed how easy it is for organisations to manipulate their intake criteria, their recording practices and their client feedback. (AASW, sub. DR557, p. 6)

Critically, those with multiple and complex needs are less likely to sustain a tenancy, and therefore less likely to achieve a positive outcome in a competitive model that rewarded successful sustainment of tenancies. Competitive contracts based on outcomes would create a situation whereby organisations would be more likely to be awarded future contracts or renewals by turning away those most in need. (Council to Homeless Persons, sub. 434, p. 8)

Box 8.4 Outcomes frameworks in use or development

The NSW Government has at least four outcomes frameworks in use or under development, including:

- the NSW Human Services Outcomes Framework, which will first be applied to social housing before being adopted more broadly (NSW FACS 2016d)
- the Quality Assurance Framework, which has been designed to measure and improve outcomes for children and young people in out-of-home care (NSW FACS 2017c)
- an outcomes framework for homelessness services (NSW FACS 2015)
- one for family support services and other initiatives that aim to reduce demand for out-of-home care (NSW FACS 2016f).

The Queensland Government uses the Social Investment Reform Performance Framework for monitoring the performance of family and community service providers and introduced outcome measures to the framework in 2014 (Queensland DCCSDS 2016).

The Victorian Government is testing an outcomes framework under its integrated services trial, Services Connect (Victorian DHS 2015).

The WA Partnership Forum is developing an 'across sector joint outcomes framework to measure the impact of earlier intervention programs, services and policies' (WA CPFS, sub. PFR386, p. 4).

In 2014 the Tasmanian Department of Health and Human Services introduced an Outcomes Purchasing Framework to apply to all the community services it funds. The Framework is intended to define and measure the changes that services achieve for service users. The Framework 'was designed to align with the Australian Department of Social Services new approach to program performance reporting, Data Exchange' (Tasmanian Government, sub. 485, p. 28).

The SA Department for Communities and Social Inclusion uses Results-Based Accountability, an outcomes-based framework for quality improvement, in its programs (SA DCSI 2017a). The Department's Thriving Communities initiatives are based on a collective impact approach, and progress towards 'outcomes that reflect the community's priorities and needs' are measured to support ongoing learning and improvement (SA DCSI 2017b).

As part of its Better Services reforms, the ACT Government stated that an 'outcomes framework will be developed as a key accountability measure to support improved outcomes and ongoing improvement' (ACT Government 2014, p. 20).

The NT Government is 'working with the cross-jurisdiction Children and Families Secretaries group to agree on national outcome statements and measures. This includes working with Aboriginal organisations to define outcome measures for the safety and wellbeing of Aboriginal children' (sub. DR593, p. 16).

Where the challenges of collecting and interpreting outcomes data can be overcome, outcomes measurement is the 'gold standard' for performance management. However, if this is not possible or not cost-effective, governments can evaluate service providers' contribution to achieving long-term outcomes by including 'interim and proxy measures of progress' (DSS, sub. 476, p. 13) in outcomes frameworks. Outputs can be useful proxies for outcomes where there is evidence of a strong causal link (such as the link between providing crisis accommodation and achieving immediate safety for people fleeing domestic violence).

RECOMMENDATION 8.3

The Australian, State and Territory Governments should, within 24 months, agree on indicators of the wellbeing outcomes of people who use family and community services and apply them consistently across all such services.

Where it is not feasible to define or collect data on service user outcomes, governments should identify outputs from family and community services that can be used as proxies for outcomes.

Governments should broadly define outcome measures (and outputs) so they can be used in provider selection, performance management and provider, program and system-level evaluations across the full range of family and community services.

Program evaluation and a learning system

Program evaluations are currently not done frequently (or at all for smaller programs) and those that are completed do not systematically lead to increased service effectiveness. A lack of system-level evaluation is a barrier to understanding how service systems work for users who participate in multiple programs, and to effective system planning. Inquiry participants recognised the importance of increasing the frequency and quality of evaluations. Jesuit Social Services (sub. 420, p. 4) called on governments to ‘evaluate and disseminate practice learnings amongst stakeholders in order to enable innovation and better outcomes’. CCA (sub. 193, p. 7) stated that ‘knowing what has been tried and what works is critical to improving service delivery’.

Evaluating providers, programs and systems has costs as well as benefits, and the scope of an evaluation should be commensurate with the size and complexity of the program. However, the current level of evaluation is inadequate and governments should take steps to increase the number of programs that are evaluated (and published) and the quality of the evaluations.

An effective system of family and community services would incorporate a learning system — findings from evaluations should inform changes to system planning and program design. Governments would also identify and disseminate the lessons from evaluations to increase the application of effective service models. The Commission recommended wider sharing of information in its 2010 report on the *Contribution of the Not-for-Profit Sector* (PC 2010).

Increasing the sharing of information could run up against some challenges. In its inquiry report *Data Availability and Use*, the Commission identified some cultural barriers within government that limit the usefulness of data.

Despite recent statements in favour of greater openness, many areas of Australia’s public sector continue to exhibit a reluctance to share or release data.

The entrenched culture of risk aversion, reinforced by a range of policy requirements and approval processes, and often perverse incentives, greatly inhibits data discovery, analysis and use.

The lack of public release and data sharing between government entities has contributed to fragmentation and duplication of data collection activities. This not only wastes public and private sector resources but also places a larger than necessary reporting burden on individuals and organisations. (PC 2017a, p. 153)

Addressing these issues and sharing more data on the outcomes of family and community services could contribute to significant ongoing improvement to service effectiveness.

RECOMMENDATION 8.4

The Australian, State and Territory Governments should improve systems for identifying the characteristics of service delivery models, service providers, programs and systems that are associated with achieving outcomes for the people who use family and community services. To achieve this, governments should:

- monitor the performance of providers of family and community services in achieving outcomes for service users
- evaluate service providers, programs and systems in ways that are commensurate with their size and complexity, and publish the lessons of these evaluations
- proactively support the sharing of data between governments and departments, consistent with the Commission's inquiry report *Data Availability and Use*
- release de-identified data on family and community services to service providers and researchers.

Contract management practices

Service providers could deliver more effective services if their contracts emphasised achieving outcomes for service users, were longer, less prescriptive and incorporated more flexibility. Some simple changes to contract terms could facilitate smarter approaches to contracting.

Outcomes-based commissioning

Outcomes-based commissioning is a general term that encompasses several approaches to focusing on outcomes in commissioning and service delivery (box 8.5). The Brotherhood of St Laurence (sub. 479, p. 37) described how identifying outcomes and having them well understood by all involved in commissioning and delivering services has benefits in itself.

As the commissioning process unfolded, as the stakes increased, as relationships were tested and nerves frayed, it was this shared belief in the goal of the endeavour that provided the incentive for all parties to develop workable compromises and 'work-arounds' to keep the project afloat.

Outcomes-based funding involves some or all funding being linked to the achievement of outcomes. Designing outcomes-based funding arrangements is costly and poses significant challenges including attribution of outcomes to services and creating incentives for service providers to take a narrow focus, or to ‘park’ or cherry-pick clients (Tomkinson 2016).

Box 8.5 **Outcomes-based commissioning**

Outcomes-based commissioning encompasses a variety of approaches to commissioning, including outcomes-based:

- **funding** — the government collects data on outcomes and links a provider’s funding with their performance against outcomes targets (also referred to as outcomes-based contracting)
- **provider performance management** — the government collects data on outcomes that it uses to monitor and compare provider performance
- **service evaluation** — the government collects data on outcomes that it uses to evaluate the effectiveness of programs and the service system
- **program design** — the government designs program guidelines, service agreements and provider selection processes to maximise intended outcomes by carefully specifying outcomes and minimising the specification of activities, outputs and processes, where appropriate
- **service delivery** — providers use data on outcomes to support case-management and to provide a tailored service response to their clients.

The benefits, costs and risks of having an outcomes focus to commissioning family and community services depend on which of these elements are applied.

In some cases governments have addressed these challenges through sophisticated contract design, such as social impact investment. However, this approach can only be used when service user outcomes can be measured and when there are robust and timely causal relationships between services and outcomes. Experience with social impact bonds demonstrates that it is not always possible (or cost-effective) to define and measure outcomes to the degree necessary. The successes — and failures — of social impact techniques highlight a number of areas where and how governments should improve the practice of commissioning family and community services.

Although social impact investment models are only applicable in a limited range of circumstances, there would be benefits in bringing into the broader commissioning system the focus that social impact investing has on defining and achieving outcomes for service users. There could be scope to expand outcomes-based funding beyond current levels in cases where services can achieve measurable and tightly defined outcomes in a reasonable time frame, but it is likely to remain a relatively minor part of the overall service system.

Longer contract terms

Governments should increase the length of contracts for family and community services. In its report on the *Contribution of the Not-for-Profit Sector*, the Commission recommended:

The length of service agreements and contracts should reflect the length of the period required to achieve agreed outcomes rather than having arbitrary or standard contract periods. (PC 2010, p. 347)

Although in theory contract lengths should reflect the circumstances of each contract, this may not be practical for governments operating thousands of contracts across a range of services. Instead a ‘default’ contract term that balances the advantages of longer contracts and the advantages of regular contestability can be desirable.

In the draft report for this inquiry, the Commission recommended that default terms for family and community services contracts be set to seven years, with scope for exceptions where shorter contracts would be appropriate, such as program trials. Where governments choose to use shorter contracts, they should explain their reasoning to potential service providers.

Seven-year default contracts would allow for time for setup (making the investments that are necessary to deliver effective services, including workforce capacity and building relationships in the community) and time for a smooth transition to a new provider at the end of the contract. In between, service providers would have a much needed period of stability and, when combined with a stronger focus on user outcomes, would provide the basis for more effective service provision. In consultations, service providers suggested that, as a rule of thumb, the set-up and handover periods could take about a year each, meaning that service providers would have five years of their contract to focus solely on service delivery. At the end of this period, contracts should be retendered to find a balance between providing continuity and retaining the benefits of periodic contestability.

Several inquiry participants supported the draft recommendation for seven-year default terms (including Anglicare Australian, sub. DR574; ASU, sub. DR575; CHP, sub. DR522; City of Whittlesea, sub. DR519; CSIA, sub. DR507; Illawarra Forum Inc., sub. DR550; NDS, sub. 518; Public Service Research Group, University of New South Wales, sub. DR572).

Melbourne City Mission (sub. DR510) and Yfoundations (sub. DR497) suggested that the default contract length should be ten years. Some participants suggested five years (COTA Australia, trans.; The Bridge Youth Service et al., sub. DR576). Several governments offered qualified support for contracts longer than three years.

- The Queensland Government stated that the Department of Communities, Child Safety and Disability Services ‘has five-year service agreements in place with funded service providers, where appropriate’ (sub. DR592, p. 9)
- The NT Government stated that it ‘is not considering seven-year contracts as a default option, but there may be scope for five-year contracts with an option for extension of two years’ (sub DR593, p. 17).

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- The Tasmanian Government stated that extended contracts ‘could be expected to deliver a range of benefits’, but that the four-year election cycle would mean ‘that there is limited funding and political certainty beyond that period of time’ (sub. DR590, p. 18).
 - The WA Government stated that since the implementation of the Delivering Community Services in Partnership policy ‘the standard length of community service contracts in Western Australia is five years (commonly with three-plus-one-plus-one contract terms)’ (WA Government, sub. DR596, p. 5)

Managing the risks of longer contracts

The flipside of providing greater funding certainty for service providers would be a reduction in flexibility for governments including, for example, when funding priorities change. Participants raised the concern that longer contracts could increase the risk that ineffective providers would be locked in for extended periods if governments took a ‘set and forget’ approach to contract management. This is a risk that could be managed through some sensible adjustments to contract management practices. Inquiry participants agreed that an essential element of longer contracts would be the introduction of safeguards to manage underperformance. For example, the Tasmanian Government stated that if longer contracts were introduced:

Tasmania would need to develop a more robust performance management framework that offers options for recourse, other than de-funding, where a service provider is failing to perform under a contract. (sub. DR590, p. 18)

A performance framework for service providers with extended-term contracts would need to incorporate regular assessments of service effectiveness. Governments should work with service providers and service users to regularly review progress toward user-focused outcomes to ensure that priorities are being met and identify opportunities to improve performance. This might involve a regular review, as part of a more ‘relational’ approach to contract management (as discussed below). To manage the most serious risks, governments, as the stewards of the family and community services system should set and maintain clear bottom-line standards for provider performance which, if breached, result in contract termination.

Relational approaches to contract management

Longer contracts would open the door for governments and service providers to adopt new ways of working together to achieve better outcomes for service users. Currently, governments tend to use simplistic approaches to contract management. Sturges (2017, p. 11) put it succinctly:

... the procurement and contract management tools that are appropriate for buying ‘paperclips’ — highly commoditised, easily specified goods and services — are not appropriate for commissioning complex support services and front-line human services.

In a world of longer contracts, governments and service providers could increase their focus on achieving outcomes for service users by adopting more relational approaches to contract management. Relational contracting involves the parties to the contract seeking to maximise the effect of their joint efforts on improving user outcomes over time. This recognises that governments and service providers both have contributions to make to the effective delivery of services. The Commission recognised the potential benefits of this approach in its report *Contribution of the Not-for-Profit Sector*. (In that report the Commission described this approach as ‘joint ventures’ between governments and service providers.)

Under the joint venture approach relatively more weight is given to achieving outcomes through relational rather than contractual governance. To be successful, these types of arrangements need a high degree of flexibility and trust based on each party having a good understanding of the other, an alignment of purpose in relation to the service being provided, and effective communication. (PC 2010, p. 326)

The relational contracting methodology has been applied in human services, including by the NSW Department of Family and Community Services in some homelessness services (Yfoundations, sub. DR497). The District Health Board for the Canterbury region of New Zealand has introduced ‘alliance contracting’ for its contracts with district nurses, allied health and laboratory services. The collective responsibility for the contract has been found to foster co-operation and the incentive to direct resources to areas of underperformance (Timmins and Ham 2013).

Taking a relational approach to contract management would pose some risks, including a reduction (real or perceived) in accountability if performance management was not based on objective measures (such as cost per service episode). Governments and service providers would need to invest in developing new capabilities to implement the relational approach, including developing outcomes frameworks and collecting and analysing outcomes data.

RECOMMENDATION 8.5

The Australian, State and Territory Governments should set the length of family and community services contracts to allow adequate time for service providers to establish their operations, and have a period of continuity in service provision and handover before the conclusion of the contract (when a new provider is selected).

To achieve this the Australian, State and Territory Governments should:

- increase default contract lengths for family and community services to seven years
- allow exceptions to be made, such as for program trials, which could have shorter contract lengths
- publish the justification for any contracts that differ from the default term
- initiate collaborative reviews (involving government and providers) to assess progress, adjust priorities as needed and identify opportunities for improvement
- ensure contracts contain adequate safeguards to allow governments to remove providers in any cases of failure.

Aligning payment with the efficient cost of provision

Governments should align the level of payment to service providers with the efficient costs of achieving outcomes for people and account for factors that cause costs to vary. As noted in chapter 2, setting and implementing this payment level is difficult. Inquiry participants identified several factors that should be considered, including:

- location (CHP, sub. DR522; SYFS, sub. DR555; UnitingCare, sub. DR514)
- administration (ASU, sub. DR575; MIFA, sub. DR549)
- capital and maintenance (SYFS, sub. DR555)
- professional development and continuous quality improvement (AASW, sub. DR557; ASU, sub. DR575; MIFA, sub. DR549; SYFS, sub. DR555)
- compliance with government quality requirements (SYFS, sub. DR555; UnitingCare, sub. DR514)
- the costs of coordinating with other service providers, when this is a contract requirement (FRSA, sub. DR554)
- indexation of payments to account for cost increases (such as increasing wages) (CEWA, sub. DR564)
- program evaluation (MIFA, sub. DR549).

This list is not exhaustive, but gives an indication of what governments should consider when setting funding for family and community services. The analysis required to estimate the efficient costs of provision is likely to be complicated and costly. Governments should initially focus on making use of the data they already collect and identifying the information required to improve their estimates and contract design over time.

RECOMMENDATION 8.6

The Australian, State and Territory Governments should provide payments to providers for family and community services that reflect the efficient cost of service provision.