



# **“To Market, to Market ...”**

## **Competitive Tendering and Purchase of Service in the Community Sector**

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## **Introduction**

*“Contracting for services with non-profit agencies does not follow the competitive market model: instead government purchase of services from non-profit agencies is a substantially political process undertaken against a backdrop in which a market model is said, wrongly, to apply.” (Smith and Lipsky 1990:32)*

Over the past decade the nature and role of non-government, or ‘community based’, organisations in the Australian welfare sector has been subjected to intense scrutiny and change. For many years, especially since the 1970s, government agencies (especially State government) supported voluntary groups - organised at a range of organisational and geographic scales - to conduct a variety of activities and to provide services which were seen as more appropriately delivered outside the framework of government bureaucracy. A new emphasis placed on accountability in government and the rise to prominence of principles known as ‘New Public Management’, has seen many of the practices which characterised this relationship radically reformed and many new ones introduced. A new language has emerged amongst community workers to describe and define the practices which increasingly characterise the relationship between government and non-government agencies in this field: terms such as ‘competitive tendering’, ‘service specifications’ and ‘purchase of service contracts’ have become part and parcel of the daily discourse of community organisations. In NSW, the various government agencies involved with human services have taken somewhat different approaches and proceeded at a different pace in different programs. However, broadly viewed across the sector, government agencies have moved to position themselves less as responding to needs identified by local communities, and more as purchasers of pre-defined services. Community organisations have thus become sellers, or ‘vendors’, of services, and in many cases are required to ‘compete’ with each other for a share of ‘the market’.

For some participants and workers in community organisations these constructs are welcomed as an opportunity to sharpen the focus of their work and

demonstrate more clearly its value to the wider society, while for others such ideas are viewed as alien, disempowering and antagonistic to the spirit of community and collective interest which energises their organisations. A third group perhaps imagines that all this is just another government fad – a language to be learned certainly, but only sufficiently to allow them to carry on pursuing their mission with minimal disruption.

Peak councils and co-ordinating bodies for the Community Welfare sector in NSW, both regional and state wide, have attempted to understand and mediate this new environment, to represent and reflect the experience of their members, and to protect the interests of local communities, and there has indeed been extensive discussion and debate. However, partly because of the fragmenting nature of a more ‘competitive’ paradigm, providing direct evidence of its impact has been a challenge, and it is often difficult to separate rhetoric from reality. The real constraints on resources of community organisations also severely limit the ability of the sector to spend the time and money required to design and implement the research strategies required to unpack such complex questions.

The Social Justice and Social Change Research Centre (SJSC) at UWS has a longstanding interest in the work of local community organisations in Western Sydney, and has developed many strong partnerships in the sector. A number of joint projects have arisen from shared concerns between the Centre and its community partners about how community organisations were managing the emergence of a so-called ‘market’ in community services, and what the impact might be on local communities. A range of very different research approaches and techniques are being applied in these studies to provide a ‘triangulated’ view of the sector – a deep and wide understanding of how community workers and their organisations experience and respond to the new ways of speaking, acting and thinking.

The research reported here resulted from collaboration between SJSC, Western Sydney Community Forum, and Sector Connect Inc. (formerly Macarthur Community Forum). The initial impetus for this project came from a seminar

organised in 2006 to report and seek feedback from community sector organisations on current SJS community sector research. These seminars were organised to report on research in the community sector and discuss the future direction of community welfare organisations in the region in the context of the emerging 'purchase of service' paradigm.

The study, which comprised an extensive on-line survey followed by a further seminar and focussed discussion with community workers, was funded by UWS under its Urban Research Initiatives Program. The views of literally hundreds of individuals and organisations have been heard in the course of this research. However, the recommendations – which apply primarily to the practices of government funding agencies – were developed by the project steering committee which comprised representatives of the three research partners.

Two interrelated sets of concerns expressed by participants in community organisations in Western and South Western Sydney informed the design of the project: the first arose from a feeling amongst participants that the need to compete for business rendered organisations unable to develop a sense of the collective impact of new funding practices on the operations and organising principles of the sector as a whole. Dimensions such as: the balance of smaller and larger organisations; changes in the relative roles of local *vis a vis* more geographically dispersed organisations; the nature of employment; the composition of management; and the extent of inter-organisational cooperation in the sector, were all obscured. The second area of concern related to the prospect that some aspects of community organisations' practices might be more difficult to express in 'service specifications' and for this, and other more political reasons, would be less likely to be 'purchased' by government agencies. Community development work and organisation building which does not target specific needs or provide explicit services to numerable individuals, was identified as already being a problem area. Activities such as community organising and policy advocacy, which could even in some circumstances be seen as antithetical to the interests of the government of the day, and yet which form the *raison d'être* of some organisations, would be at even greater risk.

As a step towards developing more systematic understanding of the way in which community organisations are experiencing and responding to more competitive, or 'market' type relationships with government funding agencies, the Social Justice and Social Change Research Centre at UWS, in partnership with Western Sydney Community Forum, and Sector Connect Inc (formerly Macarthur Community Forum), set out to survey community based organisations. Funding was eventually secured from UWS and an online survey was mounted. Preliminary analysis of the survey data was presented to further community sector meetings in the region for feedback and interpretation. This report reflects considerable refinement and interpretation of the results of the initial survey and also of subsequent input from seminar and focus group participants, and members of the study steering committee who jointly developed the recommendations.

This report begins by outlining, in more detail, the context of this research – in particular we highlight the fact that while there has been considerable scholarly, and also political, debate about the introduction of NPM and market principles to community services, both in Australia and internationally, there has been much less in the way of empirical research on its impact. While a survey such as this does not include direct observations and can only include respondents' reports of their experiences and practices, it does serve to ground theoretical ideas about what might be happening in the sector, and also to raise new questions that arise from practice rather than from ideological preconceptions.

Section 3 details the design of the survey, including the wide range of information we sought to gather on participants' organisations, and the questions we asked about their experience and opinions of contemporary funding practices. This section also reports in broad terms on who responded to the survey.

The main body of the report presents a selection of collated survey data highlighting the most important themes that emerged from analysis which are:

- professionalization of the sector
- the meaning and value of local knowledge;
- the relationship of funding programs to organisational aims;
- contract negotiation processes; and
- working with other organisations;

In each of these areas the survey responses provided an enlightening and sometimes surprising picture of the difficulties and dilemmas faced, as well as the progress being made, by community organisations coming to terms with 'purchase of service' and competition in the sector. Following the survey, preliminary analysis was presented to an industry seminar, and to a meeting of community sector managers. This post-survey consultation, reflection and analysis identified a number of serious issues arising from present practice and has led to our strong recommendations for changes in funding practice that are needed to preserve the benefits of a vigorous and engaged community welfare sector.



## **Summary of Recommendations**

1. *Demonstrated local knowledge and ability to engage the local community* should be specified requirements for all tenders, and should be reported upon and considered in the award of further contacts.
2. Consideration should be given to ways of including members with local knowledge on tender and contract assessment panels, without compromising the independence of these panels.
3. Funding should reflect the full cost of providing a service at a local level, and under local conditions, and should not be based on an assumed economy of scale. This is particularly important for decentralised providers.
4. The period of funding contracts should reflect realistic consideration of time required to establish new services and the nature of outcomes expected, especially for non-direct service outcomes.
5. A core of recurrent funding outside the competitive/project arena must be maintained to support administration and infrastructure.
6. Service specifications under contracts should never be changed during the contract period without genuine negotiations with the contracted organisation.
7. Proper consideration must be given to the full costs of changing service providers, including wind-down and set-up and the impact in the local community.
8. Further research should be conducted to explore the full costs of creating competitive and/or hierarchical relationships between agencies including the impact on engagement with local communities and also quality of service.
9. Given the continuation and expansion of competitive funding arrangements, serious attention needs to be given to setting up local, or at least regional, planning processes which provide a genuine voice for local organisations to input into needs assessment.

## ***Contracting and Competitive Funding – the context of this study***

The issues raised by government agencies contracting non-profit organisations to provide services to individuals and communities have been debated in social science and public administration for more than twenty years. According to Ralph Kramer (1994) in the US contracting of NGOs has been ‘the primary method of delivering personal social services’ since the 1970s, representing the transformation of the welfare state from a bureaucratic service provider into a ‘post-bureaucratic’, ‘enabling’ state. These developments occurred within a wider context of change in public administration, partly influenced by ‘new institutionalist economics’, under which policy-makers see public agencies

*“not as production functions or firms, but as governance structures. Faced with a public policy problem, government should select the form of regulation with the least transaction costs and the greatest capacity to meet parliament’s objectives”* (Davis, Sullivan & Yeatman, 1997: 228)

This is often summarised as “steering, not rowing” but also carries with it the imperative for the actual service providers – the ‘rowers’ – to ‘compete’ for government business by seeking out the most efficient and effective ways of achieving the objectives set by government. In other words, they become vendors in a market.

For community non-profit organisations, Purchase of Service Contracting (POSC) represents a massive shift from ‘simply subsidising voluntary agencies to continue their good works’ (Kramer 1994) because it requires contracted agencies to deliver services in line with the requirements and responsibilities of government, that is to be standardised, equitable and accountable - whereas many of these agencies previously prided themselves on provision of personalised and responsive services which relied on their relative autonomy.

Australian debates concerning the impact of 'market-driven' government funding programs and associated accountability requirements have focussed on concerns about the impact of competitive tendering and purchase-of-service contracts on the ability of community organisations to participate in policy debates or advocate on behalf of client groups, and on the likelihood of local grass roots participation in management. So called 'gagging' clauses, preventing community organisations from making public comment on the policy areas in which they are involved were a prominent and much debated feature of some Federal funding contracts under the Howard government leading to widely expressed worries that contracting by government agencies leads to more central control which is explicitly directed towards 'silencing' community organisations with some drawing dramatic conclusions such as: "Howard has attempted to neutralize the impact of non-government organisations critical of his government's policies" (Ryan 2005, p. 452). Some have gone so far as to describe these developments as an attack on democracy (Maddison, Denniss et al. 2004, 31; Manning 2004; Ryan 2005).

Conversely, Brown and Keast (2005) argue that government policies that emphasise community responsibility have 'blurred' the government's accountability "absolv[ing] government responsibility for achieving social equity". They argue that at the same time as absolving themselves of responsibility, new accountability requirements for community organisations - which they describe as "coercive regulatory arrangements that impose punitive measures" - undermine the relationships at the community level by limiting the organisations' ability "to carry out their traditional advocacy roles and to provide alternative community and social services" (Brown and Keast 2005, p.514).

Hence, the market-based approach and associated changes in accountability may be seen as threatening organisations' links to community. "It changes the behaviour of third sector organisations. If governments treat non-profits like for profits, those that survive will behave in that way" (Lyons 2001). Changes to practice and increased expectations may also increase disconnectedness with the community. While volunteerism has been one of the keys to 'community representativeness', the changing skill requirements of volunteers has resulted in

small community groups finding it increasingly difficult to attract or retain volunteers (Our Community 2003). As a 'vendor' of service provision, members and staff of community organisations also may have less involvement in policy and needs analysis of their organisation than previously (ACOSS 1997; Nowland-Foreman 1998).

Commentators and academics have also described the loss of local organisational knowledge in the face of measurement oriented "managerialist" practices. Finally, profound concerns have been expressed for the potential fate of small, locally based organisations which have traditionally engaged in local community development activities, and are less likely to have the organisational capacity to demonstrate their effectiveness and to develop competitive bids for contracts.

Despite this wide ranging public debate, it is fair to say that a large proportion of the feared outcomes described in the literature are surmises and assertions - there has been little data collected on the actual impact of POSC on community organisations in Australia, and particularly their ability to meet local needs or to carry out their missions. McDonald and Marston (2002, p.387) have called for *"critical scholarship and research into the operations and practices of the community sector, particularly with regard to the governance implications of the new welfare regime"*. Representatives of the sector have also made a similar calls (Directing our Futures 2006; Suhood, Marks et al. 2006). Voice for SONG believe that the lack of research on small community organisations has resulted in their "invisibility and a lack of understanding of their value or potential" (Suhood, Marks et al. 2006, p.15).

A 2005 study which surveyed six-hundred organisations involved in service provision contracts with the Commonwealth Department of Family and Community and Indigenous Services (FACSIA) challenged popular critiques of the service contract system, concluding that any negative effects had been less than anticipated, and that "these organisations feel able to continue to play an important developmental role in community life, regardless of the contractual arrangements" (Rawsthorne 2005, p.238). The sample for this research, however,

was limited to those who had accepted FACSIA contracts and 40% was comprised of child care centres with no tradition of community development work.

The current study set out to expand on existing research by including a wider range of organisations and by exploring areas not covered in previous work, such as organisational structure and governance. Thus, we would seek to include data from organisations which have been unsuccessful in securing government contracts, or unwilling to tender for them, and also on changes in organisational structure, management practices, constitutional or inter-organisational partnership arrangements that occurred as a result of the changes in contractual and tendering arrangements.

While like Rawsthorne, O'Shea (2006) found that many community organisations believe they still engage in some community development, many reported more difficulty in their capacity to gain and use funds to meet their community's needs and that it often involved a significant degree of creative submission writing and reporting. Many organisations were also unsure of their continued ability to meet their community's needs as they perceived that Government funded programs are becoming more prescriptive (O'Shea 2006). Representatives of local Western Sydney community organisations have also raised the question of "What gets lost when you have to shape yourself to meet the tender requirements?" (Directing our Futures 2006).

This leaves open the question - if the community sector increasingly requires levels of expertise which may not be readily available in the community and local knowledge is not utilised to establish needs - will community organisations become 'lost' to the community? And if they are 'lost' to the community, can they successfully serve the community? According to *Our Community* (2003, p. 31) "many programs are destined to fail because they have not been developed with the participation of the people for whom they are intended".

One thing that may be 'lost' is the value of local organisational knowledge. Sykes (2006), in examining the effect of funding program changes on practice, found that

'organisational knowledge' was being 'wasted' or devalued. In this study we sought responses from community organisations concerning the way local knowledge was valued in purchase of service practices.

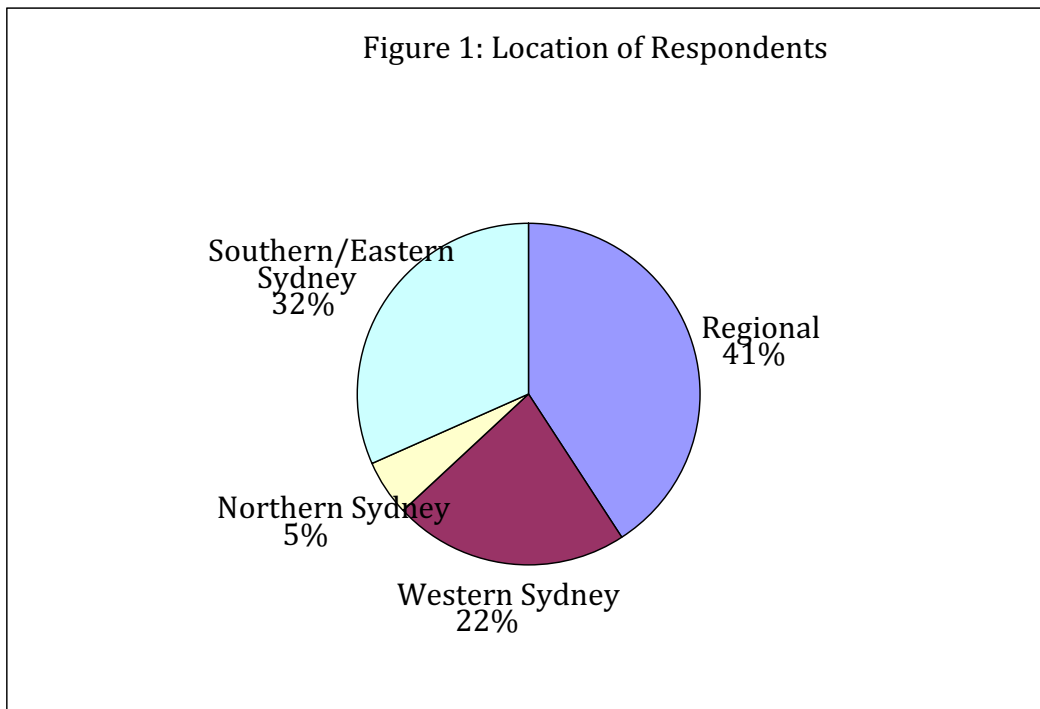
Despite these widely expressed fears and questions, non-government community welfare organisations continue to survive and grow, and to develop their voice in community issues, and many practitioners and commentators contend that the community sector has gained a new prominence and importance. Through the course of this research, and other engagements with the sector, we have heard representatives of many organisations speak of new skills they have developed and improvements they have made in service provision brought about, at least in part, by the new disciplines of the competitive funding regime. This increase in profile potentially provides an opportunity for community organisations to have more influence on social policy agendas, strengthening the importance of civil society in the modern state (McDonald and Marston 2002).

So what are the real day-to-day operational effects of market-based funding arrangements, such as competitive tendering and purchase-of-service contracting, on non-government community welfare organisations in NSW? How are these organisations coping with this emerging regime and what changes is it producing in their practices and relationships? Onyx and Dovey (1999) maintain that community organisations can continue to grow and meet the needs of their community through developing a self-conscious understanding of the current changes and their impact on practices. This limited study aims to provide new information and insights which will help organisation and peak bodies in this sector to reflect upon their own situation and practices in a way which advances the development of this understanding. Further, after our own reflection on the findings, and listening carefully to the discussion which the research has produced so far, we have produced a set of recommendations for consideration by both community organisations and government agencies which we believe will diminish the losses and the negative impacts of competitive funding arrangements and enhance the opportunities to grow a stronger, more connected and more effective community sector in NSW.

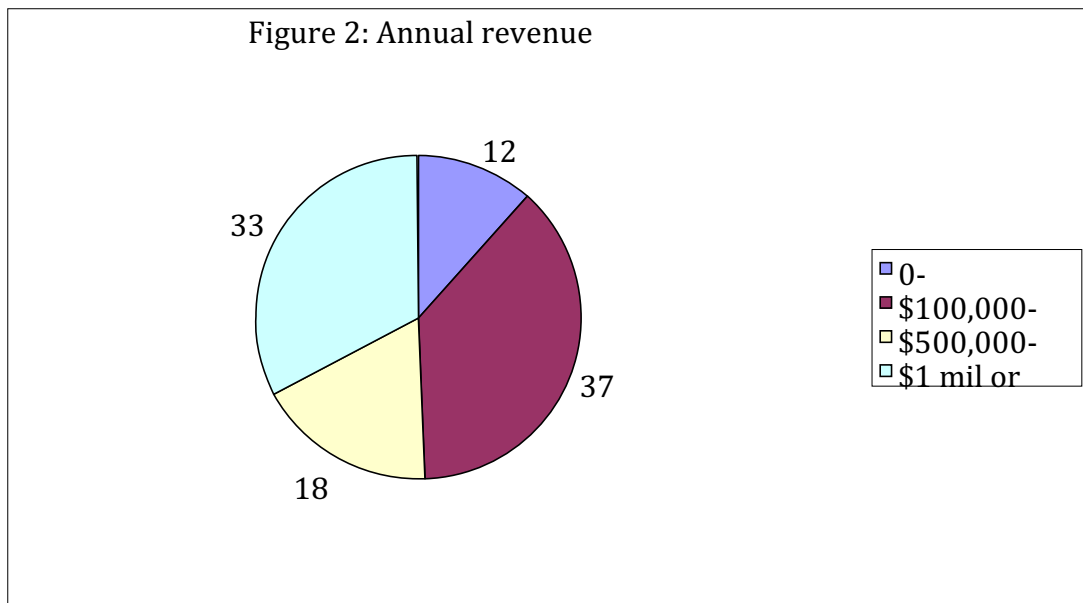
## Gathering the data

A survey schedule was compiled which attempted to gather both factual and evaluative responses from community organisations related to all of the issues above. All of the questions were developed collaboratively between the research partners and reflected the extensive industry experience of Western Sydney Community Forum and Sector Connect (formerly Macarthur Community Forum). The survey ultimately included more than 100 questions, covering organisational characteristics, experience and opinions (see below).

Through the email communication networks of Community Forums and other peak organisations, senior staff and management committee members of non-profit community welfare organisations in New South Wales were contacted and asked them to complete the survey on-line. The on-line survey format means that the sample is self selected and thus not random. Nonetheless, more than three hundred organisations attempted the survey and approximately 230 completed it reflecting a cross section of the field from very large to very small organisations, in both urban (59%) and regional areas (41%).



About one third of respondent organisations reported annual revenue of more than \$1 million, while slightly more than a third managed revenue of between \$100,000 and \$500,000 pa.



Respondents were asked to provide information on:

- structural characteristics including: service type and target population; funding arrangements and financial turnover; staff qualifications and turnover; the use of volunteers, location and catchment area.
- governance and management characteristics including: organisational aims; constitutional structure; membership; composition of board; and legal status.
- experience of competitive funding arrangements: impact on community development and policy advocacy work; impact on organisational structure and governance; impact on relationships with other organisations, including changes over time in the context of changes in funding programs and accountability requirements

The respondents include those who had been unsuccessful in securing government contracts, and included organisations working with a broad range of target groups and receiving funds from across the spectrum of local, state and federal programs. Most organisations identified themselves as ‘multi purpose’ and had multiple

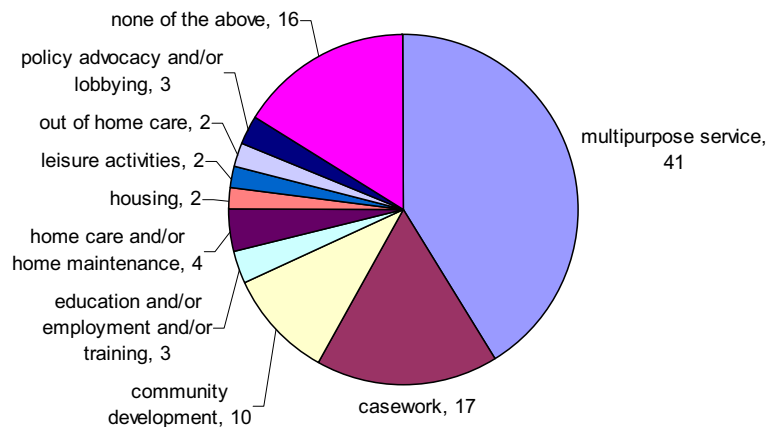


funding sources. Approximately 80% of organisations were established 1990 or earlier.

Table 1: Primary client base by region (N=229)		Region			
		Regional	Western Sydney	North Sydney	South Coast/East Sydney
Primary client base defined by	N	94	50	13	72
		%	%	%	%
	age groups	31.9	24.0	69.2	26.4
	disability	16.0	12.0	7.7	15.3
	gender	6.4	2.0	0.0	5.6
	indigenous status	0.0	6.0	0.0	1.4
	refugee and/or migrant	0.0	4.0	0.0	5.6
	all of the above	26.6	38.0	7.7	26.4
	none of the above	19.1	14.0	15.4	19.4
Primary client base restricted to	N	94	50	13	72
		%	%	%	%
	neighbourhood	2.1	14.0	0.0	5.6
	local government area	51.1	42.0	30.8	30.6
	metropolitan area	0.0	8.0	30.0	13.9
	region	30.9	18.0	30.8	11.1
	rural township	4.3	2.0	0.0	0.0
	entire state	3.2	12.0	0.0	31.9
	none of the above	8.5	4.0	7.7	6.9

One-third of organisations who responded defined their primary client base as age groups, while almost another third reported all of the above. Very few reported that their primary client base was defined by gender, Indigenous status or refugee and/or migrant status (see Table 2).

Figure 3: Main Focus of Organisation



Two in five organisations reported that their client base was restricted to a local government area, and one in five said that it was restricted to a region.

The online survey data was entered first into Excel and then into SPSS, which allowed for cross tabulation and analysis of responses by key variables such as location, funding source or service type, and also allow the identification of new key variables. Statistical analysis involved identification of differences and correlations in the responses, experiences and opinions expressed against independent variables of organisation size, service type or funding source, and then testing the significance of these correlations.

After a preliminary analysis of the data we sought responses from community organisations and their insights on interpreting the data. A seminar was held on 4 December 2008, together with Macarthur Community Forum and Western Sydney Community Forum attended by representatives of more than 40 community organisations who raised issues in the data and reflected on the preliminary finding. This was further developed at a manager’s network meeting where managers from a number of community organisations met to reflect on and discuss the findings and gave examples of situations that were brought out in the data.

## ***What did we find?***

The data highlighted changes in the skills and staffing profile of organisations in the sector as well as difficulties that small and large community services organisations are experiencing with competitive government funding arrangements. These include undervaluing of local knowledge, barriers to cooperation between organisations, restricted ability to plan for the longer term and the costs of preparing professional tenders.

### **Staffing and Skills: Professionalisation**

#### *Highlights*

- Across the board respondents reported an increase in the proportion of staff with tertiary qualifications and while social science and welfare remained the dominant professional background, management, IT, and communications were becoming far more prominent in the sector. Despite this, high school and on-the-job qualifications remain the most common background of paid staff in the community welfare sector.
- Organisations reported seeking special skills on boards and management committees, with management, business and accounting skills being keenly sought by the majority – although about half still also seek board members with social science and welfare backgrounds.
- The paid workforce in respondent organisations was predominantly female, especially in smaller organisations, and most staff were paid award wages.

Table 2: Paid Staff qualifications

	None	1-24%	25-49%	50-74%	75-100%	Don't know
	%	%	%	%	%	%
Tertiary	2.4	31.3	15.9	21.6	26.0	2.9
TAFE	1.6	26.3	26.8	22.6	17.9	4.7
High School	0.7	22.1	8.8	10.3	52.2	5.9
On-the-job	2.0	21.6	12.2	8.1	52.7	3.4

The data presented a generally very stable workforce with around half having been employed in the sector for 5 years or more, but also a growing stratum new blood with just under one quarter having 2 years or less experience.

One-third of the organisations said that Indigenous Australians were currently employed by their organisations and two-thirds reported that they employed staff with non-English speaking backgrounds.

Three-quarters of organisations reported that they use volunteers in roles other than as members of the board or management committee.

Table 6: Estimate of non-management volunteers (N=171)

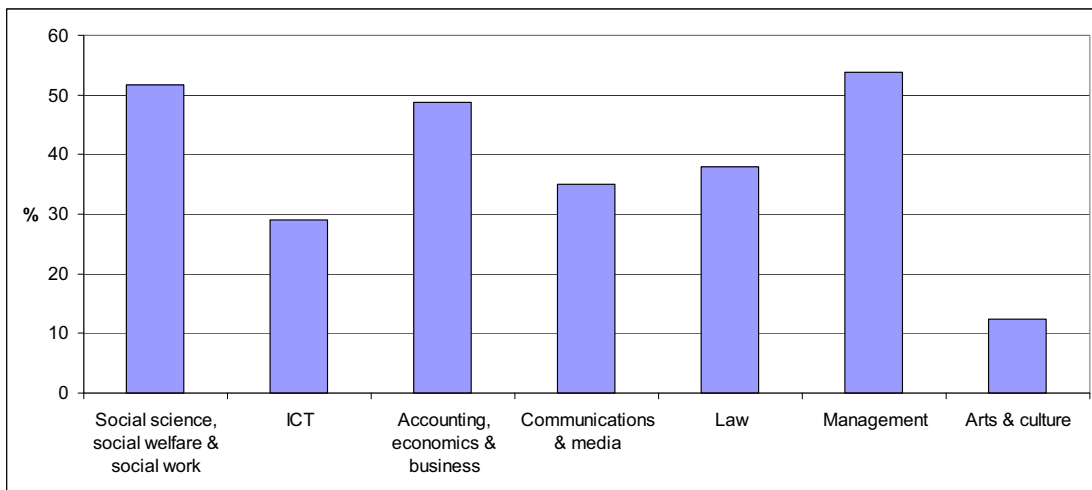
Number of Volunteers	% of organisations	Number of Organisation
1-4	21.6	37
5-9	11.1	19
10-14	13.5	23
15-19	7.0	12
20-29	7.6	13
30-49	8.2	14
50 or more	31.0	53
Total	100.0	171

Approximately a third of organisations that used volunteers in non-management positions, had between one and nine volunteers while a further third had 50 or more. Of those organisations that used volunteers in non-management positions, approximately one-half had no Indigenous Australian volunteers and one-quarter reported that no NESB volunteers were used.

Virtually all organisations that took part in the survey have Boards of Directors or Management Committees made up of volunteers, although in many cases a proportion of these volunteers hold qualifications relevant to the field and often staff positions within other organisations. This was entirely in line with our

expectations prior to the survey. However, the survey also found a large proportion of organisations seeking new skills on boards and management committees which they did not previously feel they required (36.5% reported an increase over past 10 years), with management, business and accounting skills being keenly sought by the majority – although about half still also seek board members with social science and welfare backgrounds

Figure 4: Skills sought for Management Committees and Boards



While the study discovered a clear trend towards more professionalised service delivery and management amongst community welfare organisations, this must be understood against the enduring features which characterise organisations in this sector, and which, in many ways, make it attractive for government to look to these organisations as service providers. Regardless of size or service type, organisations generally are finding that, in the new competitive environment, they need to present a more business like image in order to secure contracts, and also require skills which help them to avoid financial and legal risks. At the same time, however, the underlying efficiency and effectiveness of community organisations rests on the fact that the bulk of the work they do is carried out by low paid, or unpaid, not as part of a professional career but as part of a commitment to the local community. The survey illustrates the fact that while there is pressure to professionalise related to market-oriented funding arrangements, for most organisations there are structural limitations to how far this can go.

## Local knowledge and local needs

### Highlights

- 80% of respondents said that local knowledge is extremely significant to the effective provision of community services by their organisations.
- However, there was a strong consensus that local knowledge was not valued in the creation of state and federal funding programmes.
- Nonetheless, there was also a well supported view (50%) that existing and emerging community needs are generally represented in funding programs.
- Smaller organisations (annual revenue of \$99,000 or less) were somewhat more likely than other organisations (\$100,000 and above) to say that existing and emerging community needs were well represented.
- Three-quarters of respondents reported feeling restricted in planning for local needs as a result of participating in government contracts, larger organisations (\$1 million or more) were more likely to report feeling that competing for contracts restricted their ability to plan.

Figure 5

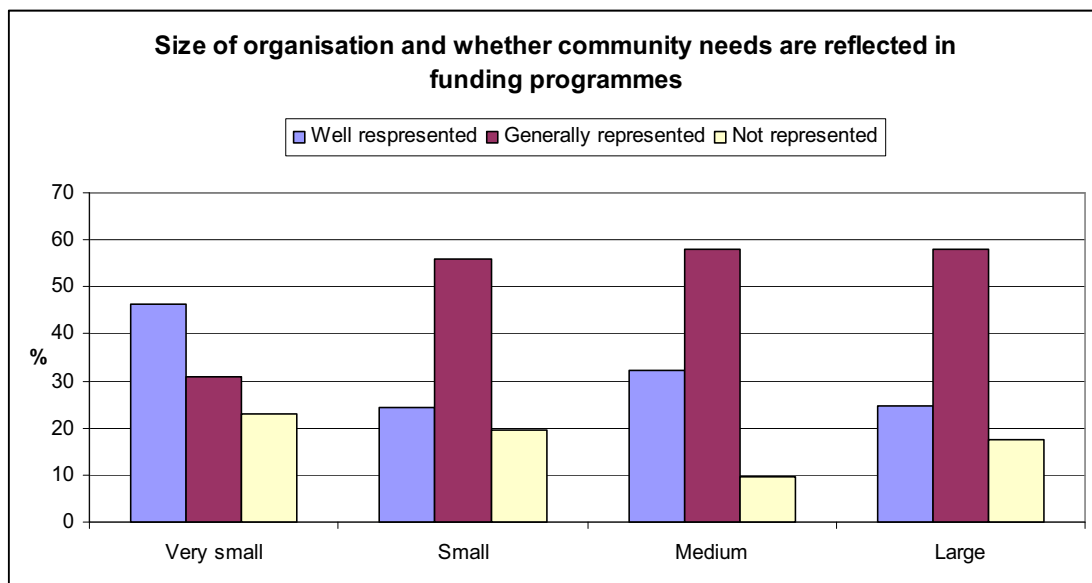
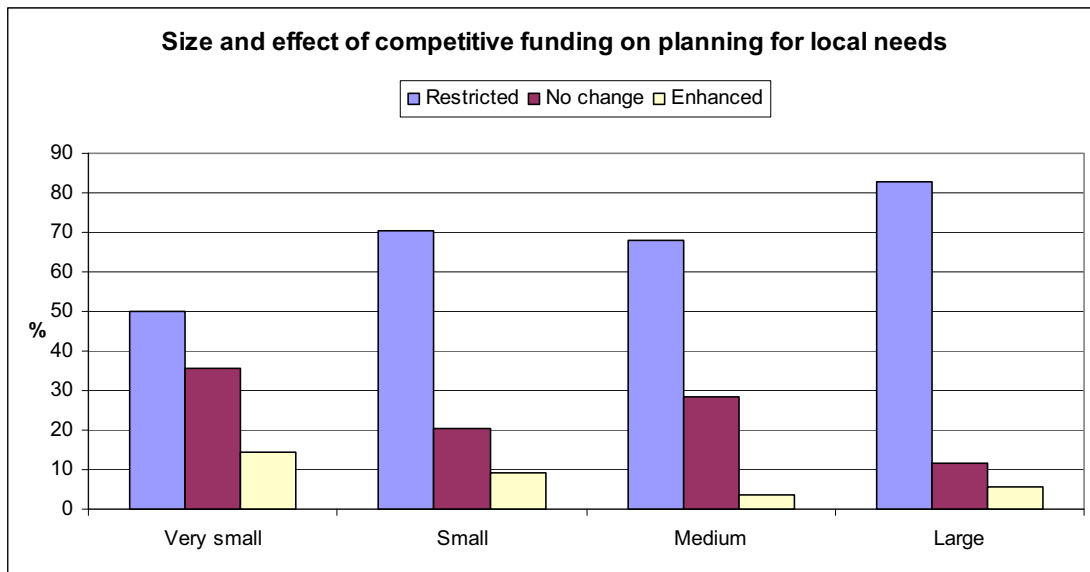


Figure 6



It was unsurprising that such a large proportion of respondents reported that local knowledge was vital to the effectiveness of their organisations, and while the fact that so many also felt that this local knowledge was undervalued in the design of government funding programs was disturbing, it confirmed a criticism which has been broadly expressed in public and academic debates. Despite these reservations, it was clear that most respondents felt well able to find ways to address local needs within the parameters of more broadly designed programs.

The major issue arising with respect to local knowledge and needs was a perceived limitation on organisations' ability to plan for changing local needs. The collaborative qualitative reflection on this survey finding revealed that many felt that they were always *responding* to what government agencies came out with at a particular time, and tailoring their description of local needs to fit with that. They had *little or no real input into shaping future funding programs* to reflect what they were experiencing and learning locally.

The qualitative sessions also considered the difference in responses to these questions between small and larger organisations. Very small organisations, with revenue of less than \$100,000 generally provide highly focussed services to a narrowly defined target group and are thus less concerned with anticipating and

planning for broader community needs. Managers of smaller organisations clarified their view that, because of their focus on very specific needs, state and federal funding programmes are adaptable to organisations' aims, without being specific about local areas. However, for the broader range of respondents, because government agencies criteria often do not address local needs, funding programmes have become more prescriptive and often favour or require innovative, new programs or approaches at the expense of existing programs which may already be doing valuable work with most vulnerable communities.

Many organisations also felt strongly that the tendering and purchase-of service processes were dominated by capacity and efficiency criteria and that genuine connection to, and experience in, the local community was unable to be properly assessed or considered. While larger organisations are able to achieve some efficiency in reduced overheads, it was felt by many participants that this is often at the expense of investment in developing in-depth local knowledge and tailoring programs to local conditions. Larger organisations were more likely to report restrictions on their ability to plan than smaller ones, and are similarly caught in the cycle of shaping their programs in response to government initiatives. There is thus a disconnection between higher level planning and working at the grass roots level and more effective means need to be found for reflecting local experience and conditions in funding specifications and provider selection processes.

**Recommendations:**

1. *Demonstrated local knowledge and ability to engage the local community* should be specified requirements for all tenders, and should be reported upon and considered in the award of further contacts.
2. Consideration should be given to ways of including members with local knowledge on tender and contract assessment panels, without compromising the independence of these panels.



## **Alignment with organisational goals**

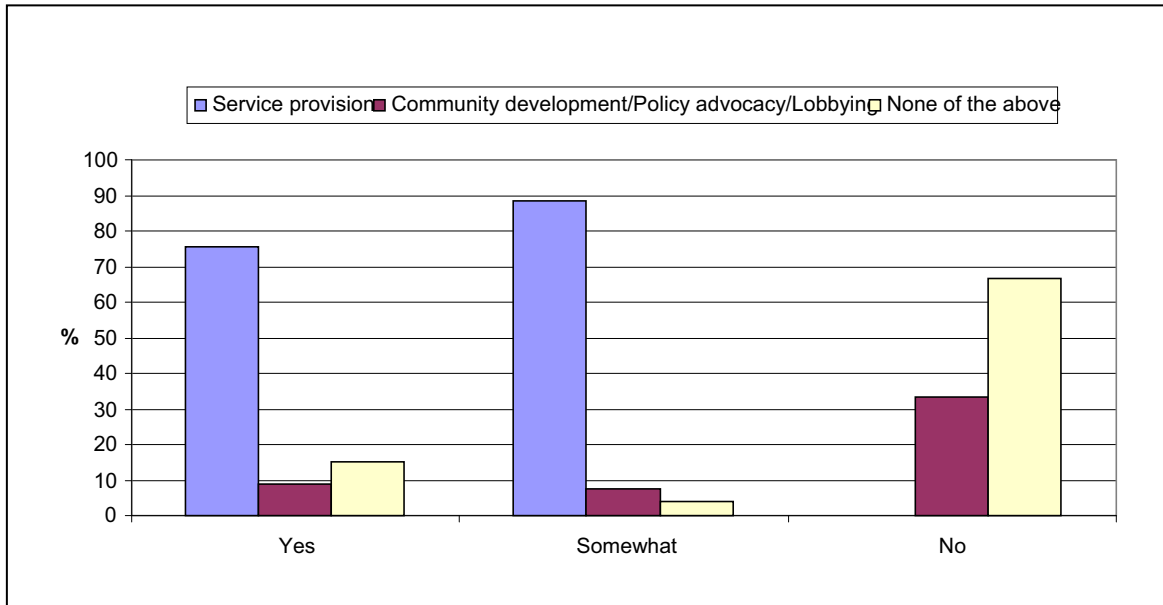
### *Highlights*

- 70% of respondents felt that the evaluation of outcomes in their most recent funded project was relevant to the aims of the project.
- However, organisations whose primary focus was either community development, policy advocacy or lobbying, as well as larger organisations, were more likely to report discrepancies between aims and outcome measures.
- Almost half of the respondents felt that the way in which outcomes were evaluated in their most recent funded project was not entirely achievable within the timeframe.
- Organisations involved in community development, policy advocacy or lobbying were more likely to say that they were not achievable within the timeframe.

When analysing the responses from this part of the survey it was found that a key variable apparently influencing responses was the way in which the organisations conceived its primary focus. A clear distinction emerged between organisations which described themselves primarily as service providers (often with a clearly defined target population) and those which featured a more developmental, organising or policy-focussed mission. Despite the large number and wide range of 'service provision' agencies in the sample, there was far less significant difference in responses to these questions within this group than there was than between this group and the community development and policy group. Thus it was decided to aggregate these groups to present some of the findings in this area more clearly.

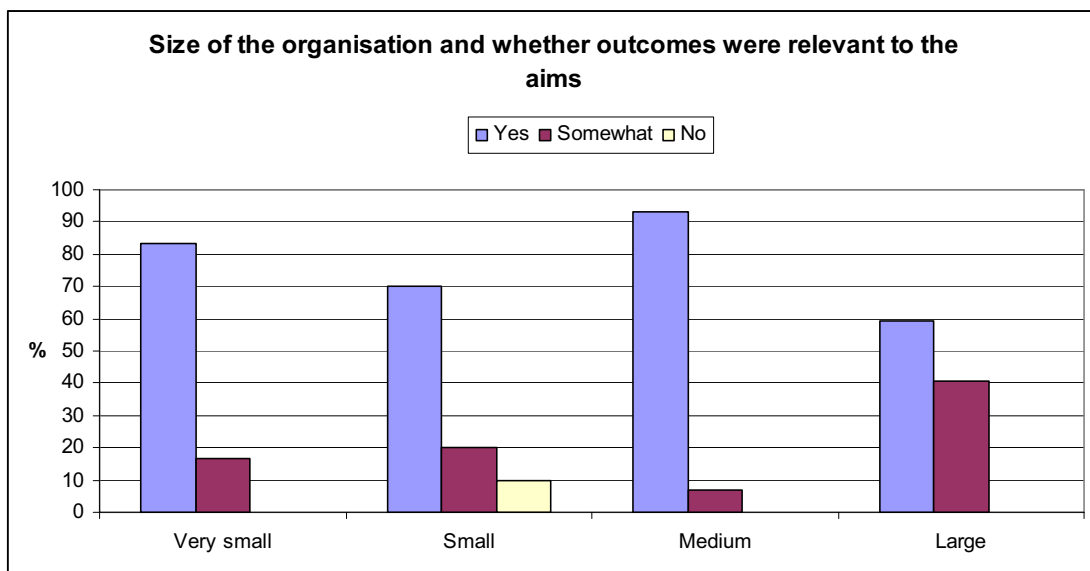
Most direct service providers reported coherence between aims of funded programs and their organisations' vision or mission, but notably more than half of the community development and policy focussed organisations saw these as less than closely linked.

Figure 7: Were outcome measures relevant to organisation aims?



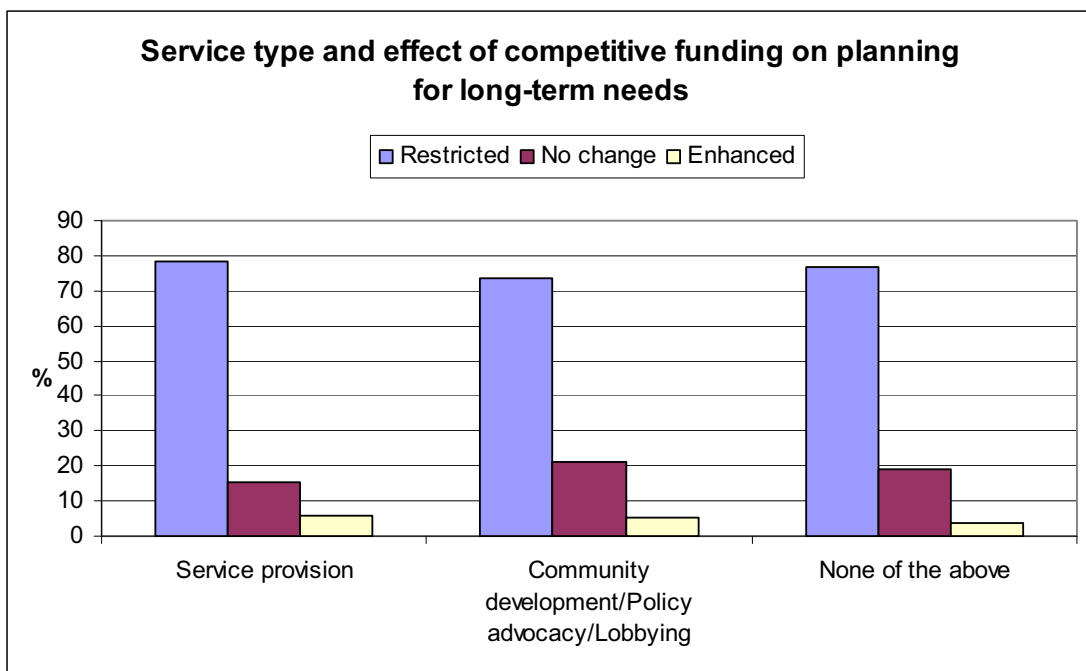
The survey findings confirm the view that organisations providing direct services to individuals find it much easier to align their program and operations with ‘service purchase’ principles than those with a mission and program addressing local social conditions or collective community needs. At the same time, a large majority across all categories of organisations reported that participation in competitive funding programs restricted their ability to achieve organisational aims compared with ten years ago.

Figure 8



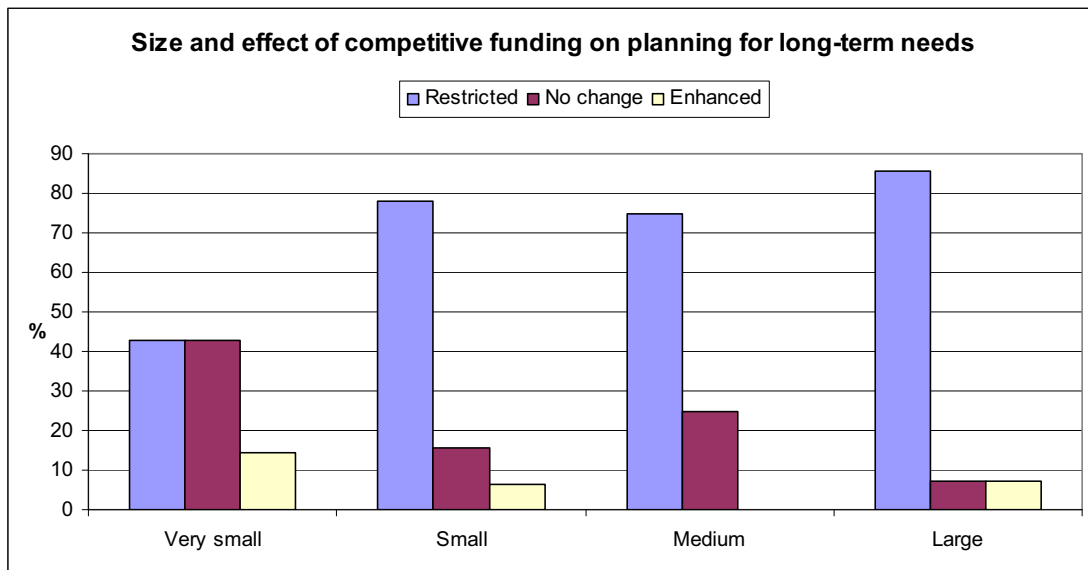
Longer term planning appears to be one of the main casualties of more market oriented funding arrangements. Almost 80% of respondents reported that they felt restricted in planning for the long term as a result of participating in competitive funding programs. This problem was much more frequently cited by large organisations (average annual revenue of \$1 million or more). The difference was statistically significant ( $\chi^2 = 11.55$ ,  $df=3$ ,  $p= 0.009$ ). Remarkably, very small organisations (annual revenue under \$100,000) stood out against this trend and reported much less restriction on their ability to plan for the long term needs.

Figure 9



The post-survey discussions and analysis considered the question of why larger organisations and those involved in either community development, policy advocacy or lobbying advocacy are apparently struggling more with the aims and outcomes prescribed by government contracts. Each of these issues arises from different aspects of the 'purchase of service' system.

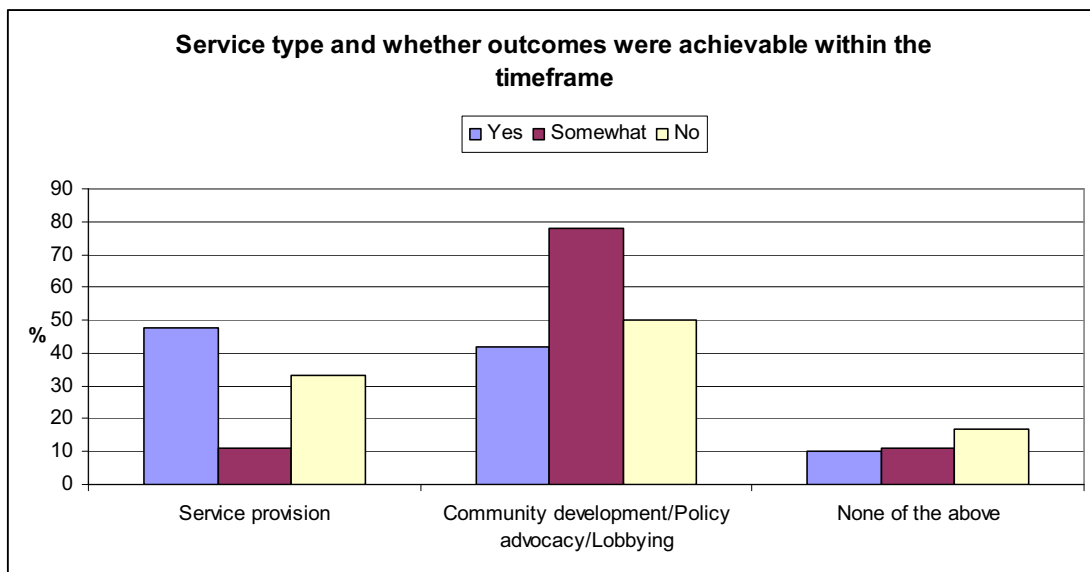
Figure 10



Both larger and medium sized organisation reported that part of the strategy required for them to be able to demonstrate their reliability and efficiency as a service provider involved investment in skills and infrastructure which were generally not provided for in the terms of contracts. Larger organisations, especially those working across larger geographic areas or in multiple locations, need to invest more and earlier in the physical and organisational infrastructure to deliver contracted services. Economies of scale are only realised after these initial set-up costs have been absorbed or recovered, yet contract periods rarely exceed two or three years, and ‘competitive’ principles applied by government purchasers dictate that new tenders must be called rather than rolling over contracts for preferred or satisfactory providers.

Some participants reported that they had been offered contracts periods of 12 months or less, even in situations where it may take 12 months to even get the program off the ground. Shorter term contracts such as this also threaten the stability and skills of the community welfare workforce as employees are less able to make their own investment in developing new skills and are often forced to look for new work before the contract is even up. One post-survey discussion participant reported having had five employers in the sector in four years.

Figure 11



Organisations focussed on community development, policy advocacy or lobbying had longer term goals that were difficult to reflect in specifications for limited term projects and contracts. Community work focussed on changing local social conditions or addressing collective needs is often long term and process- rather than outcome-oriented. Relationships with communities need to be established over time in order to develop local knowledge, whereas the service-purchase approach is necessarily focussed on measured outcomes or outputs over a specified period.

A particular issue was raised with regard to a large number of smaller organisations which have received recurrent funds from the Community Service Grants Program (CSGP) which have effectively underwritten their administrative and skilled staff infrastructure. CSGP provides funding for a range of project which primarily are categorised as neighbourhood centres, youth services and family support services. Over time most agencies funded by CSGP have taken on a range of other services, particularly direct services such as HACC (Frail aged), Disability, Children's Services and Community Settlement (migrant). This means that a form of cost-shifting has occurred whereby these other programs are actually dependant on the core management that CSGP funded positions have been able to

provide. The current funding review of CSGP will potentially impact on all of these services.

**Recommendations:**

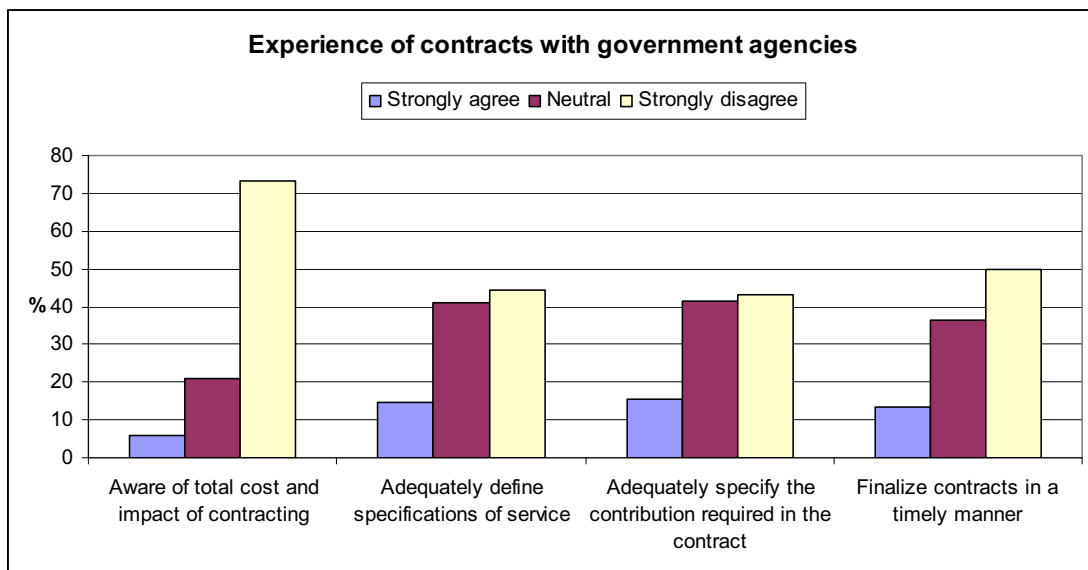
3. Funding should reflect the full cost of providing a service at a local level, and under local conditions, and should not be based on an assumed economy of scale. This is particularly important for decentralised providers.
4. The period of funding contracts should reflect realistic consideration of time required to establish new services and the nature of outcomes expected, especially for non-direct service outcomes.
5. A core of recurrent funding outside the competitive/project arena must be maintained to support administration and infrastructure.

## Negotiating Contracts

### Highlights

- The experience of negotiating contracts with government agencies has been negative for almost half of the respondents.
- Medium and larger organisations felt most strongly that government agencies were not aware of the total cost and impact of contracting.
- More than two-thirds of the respondents strongly indicated that government agencies were unaware of the total costs and impact of contracting for the delivery of community services.
- Forty percent of respondents indicated that services to be provided were inadequately specified in tender documents and almost half reported experiences of tender selection and contracting processes not being completed in a timely manner.

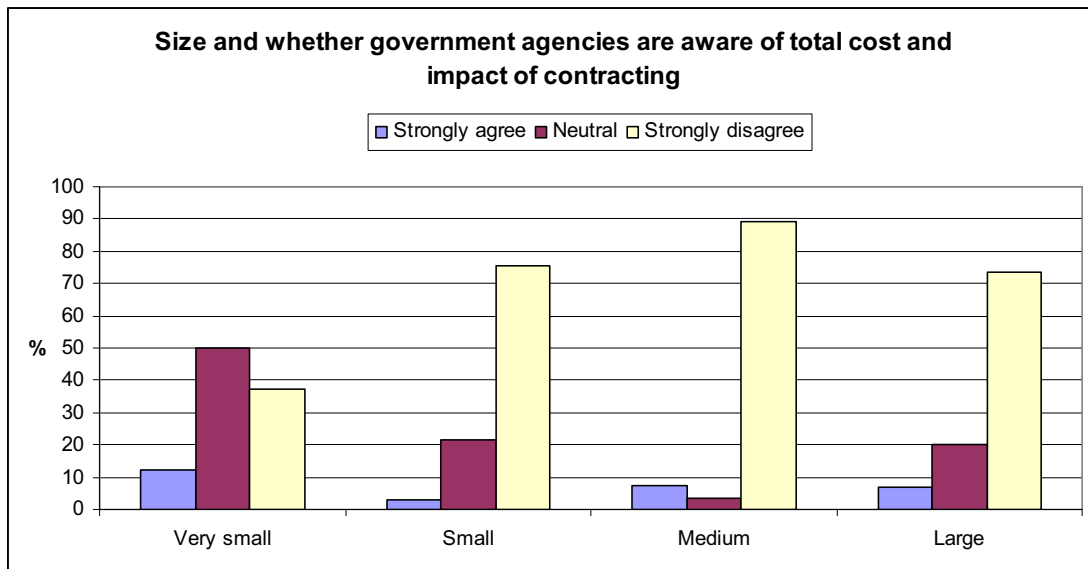
Figure 12



The majority of respondents reported negative experiences with the contracting process, and with lack of opportunity to negotiate expectations regarding expenditure and timeframe. Contractors also felt ill-advised as to the specifications of the service they are contracted to provide. Some expressed a view that this results in a inferior service to their clientele – one that is a cheap, quick-fix and which is not significantly researched, thought-out and applied. A number reported that time spent engaging in often unsuccessful tendering processes drained their time and resources, including staff and income. Their attention may thereby be

diverted from other projects, the broader picture and away from their general rationale of social justice, in their struggle to fulfil the obligations with too little money in a too short timeframe.

Figure 13



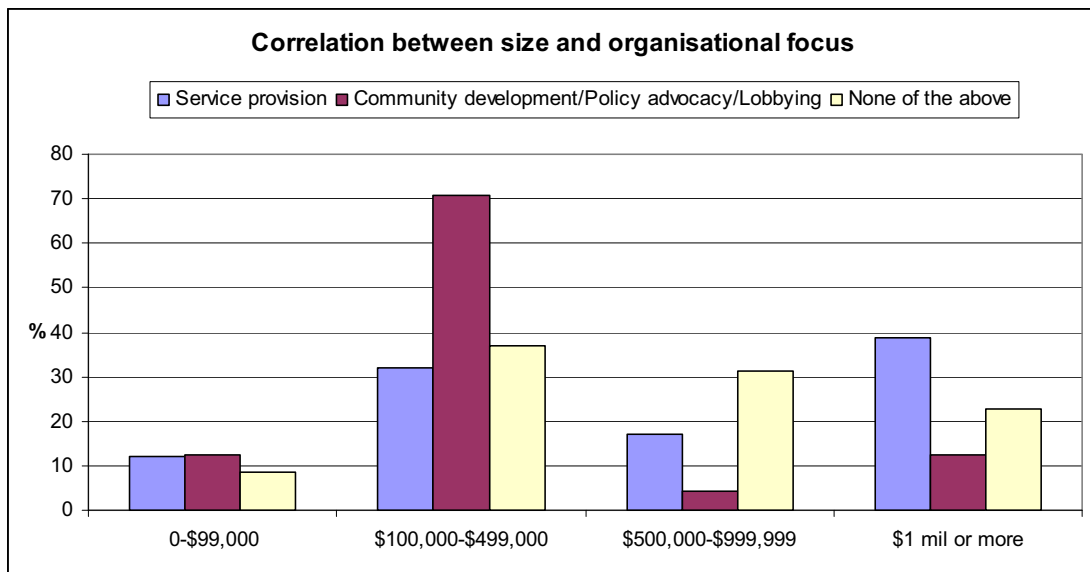
The very smallest of organisations (less than \$100,000 revenue) were less likely to complain of unaccounted for overheads or cost overruns. These are primarily organisations with only one or two staff and who often operate without their own premises or infrastructure. In such cases, because one person often does both service provision and all management and administration, additional costs are not explicitly incurred but rather are absorbed into the workload of the lone worker. The data also revealed that the larger organisations were more likely to engage consultants to assist them with preparation of tenders.

It was also suggested that small organisations rely on one source of recurrent funds do not even attempt to compete for new money through the purchaser/provider model. Larger organisations have the capacity to look at the bigger picture, research and actively seek ways to address emerging issues and so are much more likely to be aware of the major gaps in service provision that are emerging, but this requires resources over an above the costs of direct provision of existing services.



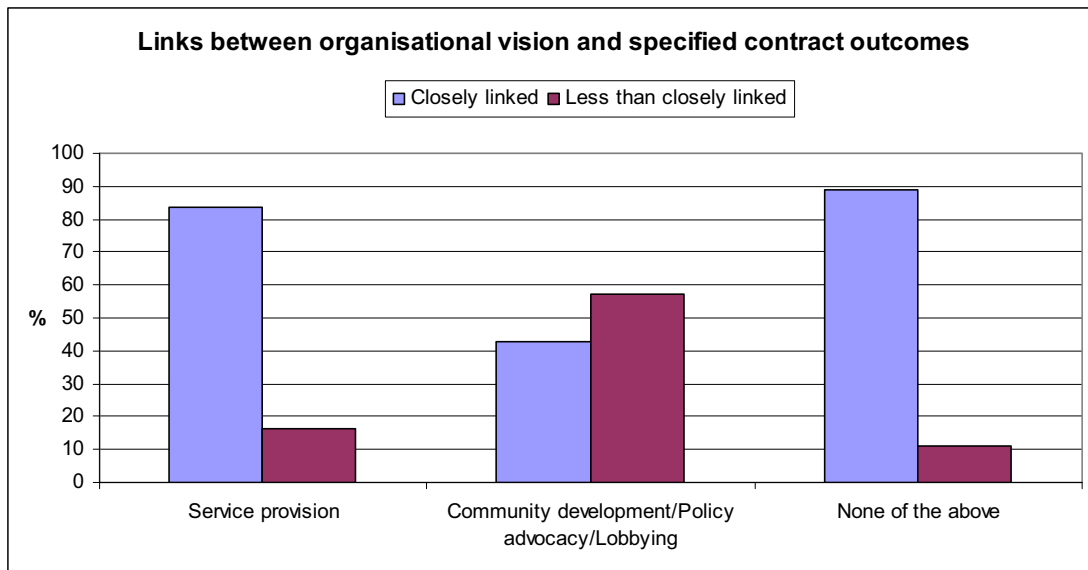
This raises a further issue concerning the nature of organisations that tend to occupy different roles within the community welfare sector. Amongst the respondents to our survey, there was a spread of smaller and larger organisations in all focus categories. However, the organisations identified as community development or policy focussed were overwhelmingly in the smaller range – less than \$500,000 revenue and/or less than five full time staff.

Figure 14



The same group of respondents also stood out by identifying a gap between the outcomes they were contracted to provide and their organisations' visions. Given that effective community development and policy advocacy work clearly requires a strong capacity for research, planning and networking, there may well be a particular need to ensure that these functions are properly taken into account in pricing contracts.

Figure 14



In the post-survey discussions some organisations explained that their dissatisfaction with the tender and contracting process was exacerbated by the one sidedness of the process – especially the fact that while they were not able to negotiate service specifications or contract price (especially to reflect local conditions) sometimes purchasing or funding agencies changed their expectations or funding arrangements after a contract had been signed and services were in operation. When this occurs it is an example of government agencies mis-using the market power they derive simply from the fact that while they have a choice of providers, they are the sole purchaser of community welfare organisations’ work.

### Recommendations

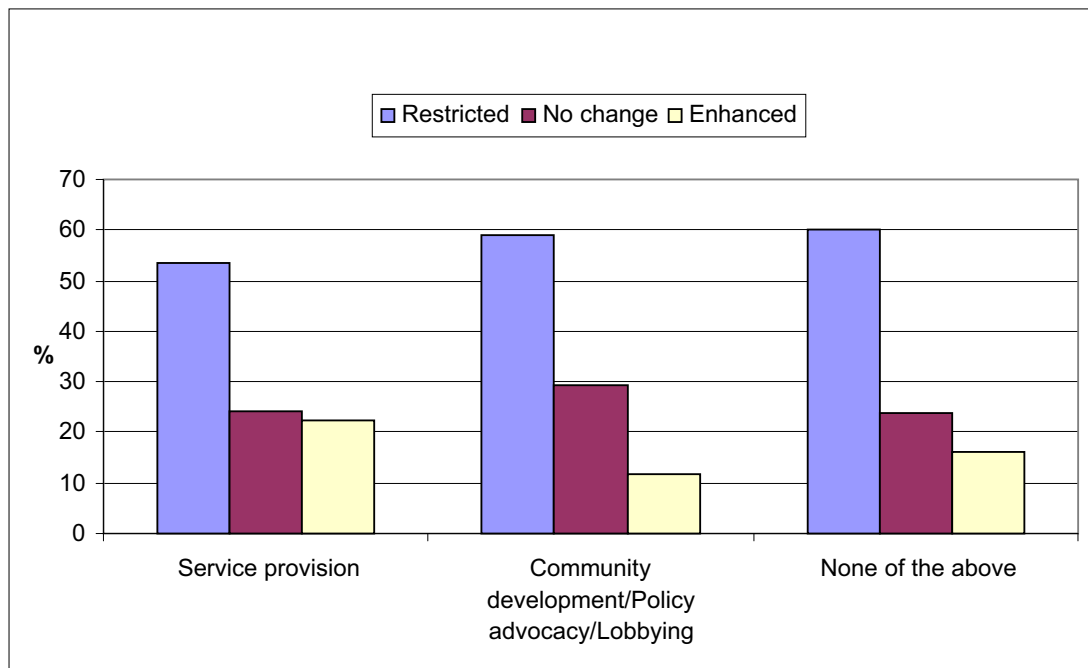
6. Service specifications under contracts should never be changed during the contract period without genuine negotiations with the contracted organisation.
7. Proper consideration must be given to the full costs of changing service providers, including wind-down and set-up and the impact in the local community.

## Working with other organisations

### Highlights

- Over 50% of respondents reported greater difficulties working co-operatively with other organisations.
- Again, very small organisations reported the least difficulty with most of this group saying their ability to cooperate was either enhanced or unaffected by funding arrangements.
- When asked what changes they had made (if any) over the past five years in order to better serve their clients, over two-thirds of organisations did say that they had worked more closely with other community organisations.

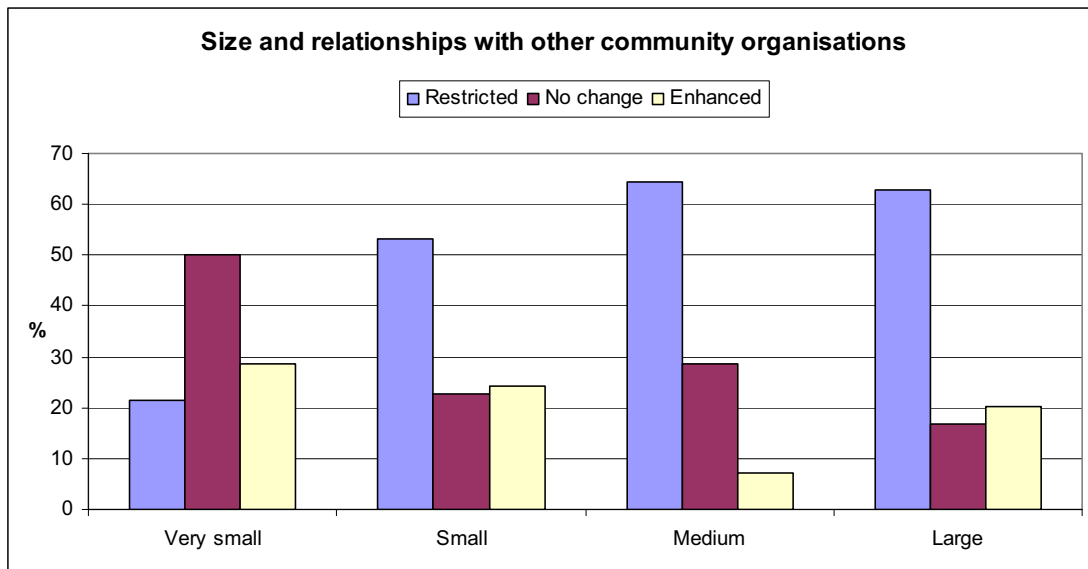
Figure 15: Organisation focus and Working with Other Organisations



The survey data revealed the apparently contradictory situation that organisations find greater difficulties working together in the competitive environment, while at the same time reporting that they are actually collaborating with other organisations more than ever. Some responses suggested that smaller organisations in particular are working together to win contracts but that larger organisations have the capacity to win contracts on their own. Seminar participants wondered whether this causes division in the sector. When this was

raised in post-survey discussions, it became apparent that at present, there is a prevalence of tenders which require collaboration and partnerships. This is a new development in the sector and some responded that it has changed the relationship between services.

Figure 16



According to some participants there has been an increase in smaller organisations developing shared service models and consortiums in an attempt to win contracts. However this requires a lot of time and effort during the implementation stage for them to succeed, and a number of organisations reported situations where they had agreed to partnership arrangements with other organisations during a tendering phase only to find that no work or resources were directed to them once the contract was awarded. Some organisations believed that others had cynically sought to co-opt their credibility or local knowledge to strengthen a tender bid, but were not really interested in ongoing partnerships.

Others felt that partnerships are being forced upon them as a means of survival and not as a result of real engagement. The competitive aspect of tendering was reported to erode cooperation. Cases of larger organisations listing smaller, locally-based organisation as partners, without having ever contacted them or involved them in anyway were raised by several managers of smaller organisations. There is no money in contracts to pay for local knowledge. Again the

fact that the contextual aspect of the provision is missing from the cost structure was raised as an issue.

The non-government community sector has a culture of working together in order to maximise resources and get the most comprehensive results across localities. Interagencies play a role in bringing agencies together to identify opportunities. Traditionally, community development work is particularly focused on collaborative approaches. Small organisations increase their reach through informal or formal partnerships with others, large and small. The results of the research demonstrate that competitive tendering works against this culture.

### **Recommendations**

8. Further research should be conducted to explore the full costs of creating competitive and/or hierarchical relationships between agencies including the impact on engagement with local communities and also quality of service.
9. Given the continuation and expansion of competitive funding arrangements, serious attention needs to be given to setting up local, or at least regional, planning processes which provide a genuine voice for local organisations to input into needs assessment.

## ***What does it all mean?***

Despite the fears and warnings expressed in the literature and discussed in the introduction to this research, it is apparent from the findings that the bulk of non-government community welfare organisations in NSW are finding ways to pursue their work and their vision in a rapidly changing funding environment, although the experiences reported here show that this is, in most cases, *despite not because of* the introduction of market type or competitive mechanisms. The competitive approach may not be the ideal way to fund community services and community development, but it also carries benefits. This research suggests that, in order to secure these benefits, both for government and for local communities, some important issues must be urgently addressed and changes made to tendering and contracting processes.

A greater focus on performance and on outcomes has led to greater professionalization, although the great majority of the work continues to be done by unqualified and often unpaid staff and volunteers – and this continues to be seen as a good and valuable feature of the community sector. Organisations whose main business is providing services to individuals appear to fit more comfortably with the emerging market based funding regime than those whose focus is on local social conditions or on policy advocacy.

This research has revealed that large organisations are perceived by smaller organisations as being advantaged in terms of competitive contracts, though this might not actually be the case in some respects. This is causing division in the sector, as Davis and Rhodes argue (200 in Brown and Keast 2005 p 12), with small organisations feeling threatened and no longer wanting to share their information. Small organisations are unwilling to share with larger organisations because they are not receiving tenders as a reward nor are they remunerated for their local knowledge. The lack of apparent value placed by funding agencies on local knowledge and experience is one of the most significant issues that has arisen from this study.

Fears are that as a result of competitive funding policy and practices in the last ten years, locally based community organisations have now a lesser ability to explore or initiate local community development projects and to participate in and influence the policy debate about competitive funding because of the prescriptive nature of the purchaser/provider model. If organisations increase their revenue through successful tendering, their future may be more certain but their goals are more likely to be aligned with the governments and not stemming from local knowledge. It is apparent from the findings that the small organisations are being put in a position where they have to change to survive, as Lyons predicted (2001). This is saddening as diversity in the field is extremely valuable to the community. If changes are not made in the system, small community organisations will become lost in an environment where local knowledge is not valued.

Community needs and the associated expertise required to address them are being projected onto communities and community organisations, neglecting true local needs as assessed by local community organisations. Contract specifications are often general enough for local organisations to find a way to manage within this one-size-fits-all approach but prescriptions are also detrimental to existing programs which are undertaking valuable work, as innovative new programs are valued above these, as well as restricting planning for emerging community needs.

Outcome measures appears to be ineffective for many and to disadvantage organisations focussed on community development, policy advocacy and lobbying. Timeframes were also seen to be unreasonable, as they did not realistically account for consultation, planning, setting-up, implementation etc. Real relationships with government appear to be the feature lacking here. Genuine partnerships are required in order to address this apparent distance from the local.

Genuine partnerships with government are also lacking when it comes to negotiating contracts. Organisational vision is too often stifled and long-term planning is restricted.

One of the key recommendations emerging from this research concerns the need to provide a recurrent stream of resources to community organisations outside of the competitive 'outcomes-based' process. This stream of funds is required to underwrite research, networking, planning and general organisational infrastructure, particularly for small organisations. As outlined above, programs such as CSGP have in the past fulfilled this need for relatively reliable, recurrent funds.

However, in 2003/04 the NSW Department of Community Service (DoCS) changed the language of grants from 'recurrent' to 'renewable'. Community organisations have assumed that 'renewable' means to 'recurrent' ie that as long as the agency met the agreed service specifications, the funding would be continued.

Organisations expected that if there was any difficulty, DoCS would negotiate with them to highlight concerns or potential changes. However Communities Division of DoCS appears to be interpreting this differently. While agencies may assume that an agreed project was funded for the period of an agreed and formalised three year Families NSW Area Plan, DoCS interpret funding to be 'renewable or not, year by year. Consequently several agencies have found that their project is not to be renewed, one year into the period. In these instance DoCS is clear that the performance of the project was not under question but that they want to 'test the market' for other ideas for this funding. New service specifications will be developed and the project put to selective tender, for which existing agencies will be invited to participate, along with others.

This system bypasses consultative mechanisms established by DoCS to advise the FNSW projects in the area – the Families NSW Implementation Groups (FIGs) and project Reference Group. While DoCS talks of evidence base, in these instances there has been no evaluation of projects to ascertain it's impact / value.

Families NSW is taking a stance of funding 'strategies' not agencies:

*"FNSW is to operate as a responsive, population based strategy. There needs to be some flexibility in the funding to allow this responsiveness. It is also an acknowledgement that Families NSW isn't a funding program, and so we are trying*



*to convey that the way we fund is against a 3 year strategic plan (and therefore local priorities) rather than it just being grants for services. The funding base for Families is recurrent, but we aren't funding longer term projects anymore as a rule"*

(Communities Division, DoCS)

This is a different approach by funding bodies and gives no security to their funded partners. The impact on organisations of 'renewable funding' being withdrawn in favour of 'competitive' arrangements is that:

- Tendering the project is likely to have a negative impact on work and relationships with colleagues who are the other organisation in invited to tender. Agencies become competitors in this new process, placing tension on the co-operative work that may operate in a range of other areas.
- Staff have no security of tenure in this situation, a situation which has significant implications in the current economic climate.
- The sustainability of smaller organisations impacted. Funding removed from a project that an agency had been led to believe was renewable for the next two years has a negative impact on ability to plan for financial sustainability eg an agendum may have a large rent obligation which other projects will now shoulder.
- The selective tender process takes several months - if there is a change in provider, there is a resultant loss of knowledge and experience , significant period of disruption to the continued support for family and children services, and ultimately affecting the community. If the original agency wins the tender they will have lost experienced staff and their established networks
- Additionally, this situation has a negative impact on relationships between the funding body and the sector.

This process seems in contradiction to NSW Government policy agreements: The decision has not followed processes outlined in key documents:

The "Government "Working Together for NSW – An agreement between the NSW Government and NSW non Government Human Services Organisations".-this document says in part that the NSW Government will

- ensure that the views of non-government organisations are sought and fully considered in social policy priorities and changes to human service programs
- establish appropriate opportunities for non-government organisations to fully participate in human services planning and evaluation processes
- implement and upgrade its funding policies and practices in a manner which builds constructive relationships with the non-government human services sector

The DOCS Funding Policy (2006) also made no reference to this system being an option they might follow. This example demonstrates the distance which is opening up between government and its partners in the delivery of community welfare services in NSW, and which threatens a long standing and productive relationship. Adoption of the recommendations of this report might begin to close that distance.

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