

Parliament of the Commonwealth of Australia

**House of Representatives Standing Committee on
Family and Community Affairs**

What Price Competition?

**A Report on the Competitive
Tendering of Welfare Service Delivery**

June 1998

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COMMITTEE MEMBERSHIP

38th Parliament

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Mrs Andrea West, MP

(1) Replaced Hon Duncan Kerr, MP 17 November 1997

(2) Replaced Mrs Danna Vale, MP 27 November 1997

(3) Replaced Mr Peter Slipper, MP Chairman until 27 November 1997

(4) Replaced Mr Ross Cameron, MP 12 May 1998

Secretariat

Mr Bjarne Nordin

Dr Darren Benham

Ms Nicola Mizen

Ms Belinda Shepherd

Committee Secretary

Inquiry Secretary

Senior Research Officer

Administrative Officer

TERMS OF REFERENCE

COMPETITIVE TENDERING OF WELFARE SERVICE DELIVERY

To inquire into and report to the Parliament on the desirability and feasibility of increased contracting out and competitive tendering of welfare service delivery by all service providers, with specific reference to:

- the current levels of welfare service provision by the non-government welfare sector;
- the adequacy of current monitoring of performance standards for services delivered by the non-government welfare sector;
- the costs and benefits provided by increased contracting out of government services;
- the role of government in standards setting and monitoring of accountability standards; and
- the role of government in measuring the efficiency and effectiveness of new service delivery arrangements.

GLOSSARY AND ABBREVIATIONS

AIHW	Australian Institute of Health and Welfare.
CHASP	Australian Community and Health Accreditation and Standards Program.
COMPETITIVE TENDERING	The process of selecting a preferred provider from a range of potential providers by seeking tenders and evaluating these against a range of criteria.
CONTESTABILITY	A tool for assisting public service managers determine whether non-government agencies are better able to deliver services currently delivered by the public sector.
CONTRACTING OUT/ OUTSOURCING	An arrangement whereby a government agency enters into a contract or agreement with a service provider from outside that agency for the provision of services which have previously been provided by a government agency.
COAG	Council of Australian Governments.
CSDA	Commonwealth-State Disability Agreement.
CTC	Competitive tendering and contracting out.
GDP	Gross Domestic Product.
HACC	Home and Community Care Program.
ISO	International Standards Organisation.
NGO	Non-government organisation.
NIMS	National Information Management System.
OUTPUTS	The volume of service received by clients in terms of the completion of a service.
OUTCOMES	The measurable changes to the quality of life of the recipients of the service.
QIAS	Quality Improvement and Accreditation System.
SAAP	Supported Accommodation Assistance Program.

VOLUNTEER

A volunteer is someone who willingly gives unpaid help, in the form of time, service or skills, through an organisation or group¹.

¹ Australian Bureau of Statistics, *Voluntary Work Australia, June 1995*, Cat No. 4441.0, AGPS, Canberra.

EXECUTIVE SUMMARY

The use of contracting by public sector agencies for the delivery of services is widespread in Australia. In some jurisdictions, social and economic pressure to provide greater efficiencies and increased flexibilities in service delivery has led to contracting being expanded beyond the traditional service areas of refuse collection and cleaning to 'core' government services such as prison management, employment assistance and hospital services. In this context, it is critical that governments ensure that any increase in contracting out does not disadvantage clients, who critically rely on these services for their essential needs.

The expansion of contracting into 'core' government services has led to a redefining of responsibilities and relationships between key stakeholders and raised important questions of accountability and quality, equity and distributional impacts of contracting, and the suitability of pro-competitive models for particular services. While some of these questions have been raised in the context of government welfare services, there has been no detailed examination of the desirability and feasibility of increased contracting out and competitive tendering of welfare service delivery. The present inquiry is the first to specifically examine this question and the core issues surrounding it, including the current levels of service provision by the non-government welfare sector; the adequacy of current monitoring of performance standards for the sector; the role of government in standards setting and monitoring of accountability standards; and the role of government in measuring the efficiency and effectiveness of new service delivery arrangements.

At the outset, the Committee wishes to emphasise that the overwhelming weight of evidence suggests that no further contracting out of welfare services should take place until a continuum of contestability framework is developed for determining the suitability of these services for contracting out. This framework should include service related and non-service related factors and be reviewed on a regular basis to take account of changes in organisational objectives and practices, technology and service markets, and that the contestability status of all welfare services be re-assessed at regular intervals.

Context of Reform

In welfare service delivery, the international trend has been for governments to pass these responsibilities to the not-for-profit community sector and private for-profit sector by contracting or privatising former State-run public welfare institutions. In Australia, similar changes are taking place, with major implications for governments in terms of their future role in welfare and their relationship with non-government service providers. These changes have been driven by:

- the Council of Australian Governments' (COAG) adoption of the Hilmer Report on National Competition Policy and the Industry Commission examination of Charitable Organisations in Australia and Competitive Tendering and Contracting by Public Sector Agencies, which argue that all government activities should be potentially subject to competitive tendering unless they can be shown to be 'core' operations;
- national micro-economic reform; and
- national and international trends among governments to provide human and other services through contracting with private and non-government agencies in order to increase

economic growth through more efficient and effective use of resources spent on public services and their administration; provide greater choice to consumers; and offer more holistic services to recipients.

Current levels of Service Provision

Non-government social welfare organisations operate within a large and diverse sector, providing a range of services to the community, including aged care, disability services, community, individual and family services as well as child care and employment programs. These services are delivered by some 11,000 community-based and church-affiliated organisations, as well as numerous private for-profit companies and State/Territory and Commonwealth Government agencies.

It is estimated that in 1995/96, \$8.9 billion (or 1.8 percent of GDP) was spent on providing welfare services, an increase of 89 percent since 1989/90. Of this, 65 percent (\$5.8 billion) was funded by Commonwealth, State/Territory and Local Governments, and 10 percent (\$0.9 billion) by non-government welfare organisations. Clients contributed 25 percent (\$2.2 billion) for welfare services and child care services provided by governments and non-government organisations. In Australia, service provision is primarily carried out by non-government welfare organisations. In 1994/95, these organisations delivered \$4.9 billion worth of services to the community, while the government sector delivered services estimated at \$3.1 billion.

In 1994/95, services for the aged and people with a disability accounted for around 58 percent of recurrent expenditure on welfare services by the Commonwealth and State and Territory Governments. Family and child welfare services accounted for a further 32 percent of outlays. Between 1989/90-1995/96, welfare services expenditure by the government sector increased at an average annual rate of nine percent, for a total increase of 64 percent over the period 1989-90 to 1995-96. On a per capita basis, government expenditure rose by an average rate of 7.3 percent a year or 53 percent over the period.

Impacts of Contracting Out and Competitive Tendering

Impacts of Accountability

The introduction of the purchaser-provider model has led to a redefinition of the roles and responsibilities of funding agencies and service providers, and raised questions about who is accountable, to whom, and for what. In considering how contracting out and competitive tendering has affected accountability, the Committee was presented with a wide range of divergent views. Contracting out can enhance accountability in a number of ways, in that:

- it requires government agencies to clearly specify the service to be delivered and to allocate precise responsibilities between the agency and the contractor for the delivery of the service, which makes it easier to identify instances where there has been a failure by the contractor or agency;

- it requires government agencies to specify the criteria by which the contractor's performance is to be measured and monitored;
- it enhances the capacity of consumers to achieve redress where there are a number of providers between whom purchasers and consumers may choose; and
- where policy, service delivery and accountability are the responsibility of the same department or agency, there is potential for a lack of clarity, or a conflict of interest, with regard to responsibilities. Thus, separating service delivery (through contracting out) from the other elements has the potential to clarify roles and enables the public sector to concentrate on policy development and accountability monitoring.

However, there was also evidence presented by both government and non-government organisations that increased contracting out can lead to a diminution of accountability as lines of responsibility become blurred and mechanisms for accountability are reduced. Key factors include:

- an emerging trend among some senior government officers to regard contracting out of service delivery as a means of contracting out the risk; and
- lines of accountability become extended, such that service stakeholders are unable to determine who is responsible for ensuring service standards.

While there were a range of divergent views put to the Committee, there was general agreement that, regardless of who actually delivers the service, the contracting agency should remain ultimately responsible for the impacts of the services that are delivered.

Impacts on Quality

Contracting out and competitive tendering have a number of potential impacts on the quality of service. Contracting out can improve the quality of service delivery because it enables a better understanding of quality requirements through improved specification of responsibilities and required outcomes, and greater flexibility for clients in choosing service providers that best suite their needs. However, the quality of service provision could suffer as a consequence of contracting out and competitive tendering where excessive costs associated with tender preparation had forced many small organisations to divert resources away from the provision of services.

Another aspect of quality potentially threatened by competitive tendering referred to in evidence was that of continuity of service. There was concern that the lack of continuity of service brought about by contracts changing hands may result in major disruptions to service arrangements for clients.

Cost of Service

The Committee found that while there have been a number of studies reporting significant cost savings in State and Local Government services, such as road maintenance, cleaning and refuse collection at the level of State and Local Government, there are no detailed empirical studies which have specifically looked at the cost impacts of contracting out of welfare services in Australia. Many studies claiming significant savings without loss of quality have

been criticised as simplistic for not taking into account a number of key variables, such as the costs of redundancies and the cost of the tendering process.

While there was little hard evidence presented to the Committee, there was a large volume of anecdotal material. A number of Commonwealth Government agencies argued that contracting out and competitive tendering had the potential to reduce costs by market competition forcing down the costs to governments, developing strategic partnerships and alliances, including attracting capital and share risks, and identifying opportunities for micro-economic reform. However, other witnesses criticised the published studies which claimed significant cost savings. They argued that contracting out had the potential to substantially increase the cost of service delivery by increasing overhead, administration and transaction costs.

Sector Impacts

A central issue raised in this Inquiry was the effect of competitive tendering on the structure of the welfare services sector. A common criticism was that small service providers with limited resources and capital are unlikely to be able to compete successfully for contracts against the larger, better resourced organisations, and that this would ultimately result in a reduction in services for disadvantaged groups who currently rely on small organisations to meet the specialist support needs of rural and remote communities. However, other witnesses argued that the outcomes for smaller service providers have not all been negative, and that competitive tendering had led many smaller organisations to reassess their role in service delivery and to focus their efforts more strategically.

It was also claimed that increased contracting out was a positive force for the sector which would encourage strategic partnerships between large and small service providers, resulting in improved services to users.

The issue of sector reform was also canvassed in this Inquiry. Government agencies argued that competitive tendering was an important mechanism for promoting sector reform and development, thereby increasing sector responsibility for quality by introducing some form of market-based discipline and elements of competition. This was contrary to the position put by the community sector that the implementation of competitive tendering would result in an environment focused less on co-operation and mutual goals and more on reducing costs and outbidding other service providers.

The impact of contracting out and competitive tendering on employees and their wages and conditions was a major concern to many organisations consulted during the Inquiry. While very few witnesses were able to point to specific examples, the anecdotal evidence indicated that there had been instances where savings achieved through contracting out and competitive tendering had been at the expense of job security, wages and conditions.

Impacts on Volunteers

The group potentially most affected by the move to competitive tendering is that of volunteers. In Australia, volunteers and voluntary agencies have long had a prominent role in the delivery of welfare services, by providing a cost-effective source of labour in areas of service delivery where government funding is inadequate to meet consumer needs. In many areas of welfare service delivery, volunteers, rather than paid employees, are the key human resource. It has been estimated that 10 percent of the population 15 years and over, contribute an average of 74 hours each year to providing social welfare services to the

community. This is equivalent to around 50,000 persons contributing 40 unpaid hours per week each year, and represents an enormous saving to governments and communities.

In view of their importance in the provision of welfare services, it was not surprising that many witnesses stressed the contribution of volunteers to their organisations. There was general agreement that, in moving toward increased competitive tendering, governments need to ensure that volunteers, who freely contribute their services without payment, are not discouraged from participating in the delivery of welfare services as this would inevitably drive up the cost of service provision.

Regional Impacts

Numerous submissions questioned the suitability of a competitive model for the delivery of welfare services, particularly in small rural and remote communities. Successful competitive tendering requires effective competition so that the best provider is chosen. However, calling for tenders does not always guarantee effective competition. Many witnesses highlighted the fact that in some areas of welfare service delivery, the characteristics of the market or the service mean that there will be very few service providers. This raises questions about the suitability of competitive tendering in small remote communities.

Performance Monitoring

An extensive range of quality assurance measures have been implemented within the welfare services sector by Commonwealth Government agencies, State and Local Governments and non-government organisations to ensure that the service provider is faithful to the terms of the service agreement and that clients and the contracting agencies are satisfied with the service being delivered. In the past five years, in particular, there has been an increased recognition at all levels of government and in the non-government sector of the central role performance monitoring can play in facilitating improvements in the range and quality of welfare services.

While the Committee found that there had been significant improvements at all levels of government in terms of the quality assurance measures currently in place for welfare services, current approaches to performance monitoring have a number of important limitations, including:

- problems with developing robust performance indicators for outcomes and outputs;
- uncoordinated approaches to the development of performance standards and quality assurance mechanisms;
- problems relating to accreditation;
- high cost of reporting; and
- limited expertise in performance monitoring.

Many non-government organisations have developed their own performance indicators and data collection methods as part of an overall quality management system. In many instances, these internal performance monitoring systems are quite sophisticated, comprising a range of quantitative and qualitative elements. These internal performance monitoring and data

collection systems provide a valuable tool for individual organisations. However, from the point of view of monitoring sector performance, these systems, and the information collected by them, are severely limited by the fact that they tend to be based on performance standards developed 'in-house' and reflect the specific needs and focus of the organisation concerned. As such, they are not capable of supporting comparisons of performance between organisations or across the sector as a whole.

While the current range of performance standards and quality assurance mechanisms have resulted in inadequate performance monitoring in some areas of service delivery, the cost burden placed on service providers has the potential to further undermine effective performance monitoring by discouraging agencies to comply with current standards.

Contestability

Many witnesses in this Inquiry expressed the concern that adequate attention had not been given to the need to establish mechanisms for assessing the suitability and desirability of exposing welfare services to competitive pressures in the first place. This issue, commonly referred to as contestability, is an important initial step in the contracting out of government services. Definitions of contestability are often based on the assumption that introducing contestability is analogous to allowing outside organisations to compete to provide a service or introducing competitive tendering. The Committee does not support this interpretation, but sees contestability as a 'measure of the potential for competition', and a contestable activity is one which potentially can be performed by a number of providers, but which may or may not be opened to competition.

The evidence suggested that the most difficult aspect of the contestability process is evaluating the contestability and suitability for contestability of an activity. An activity may be contestable if alternative providers exist. In the welfare services area, there will be many activities which are potentially contestable. However, some of these activities will be unsuitable for contestability on the grounds of cost or quality considerations or where the community deem the provision of these activities to be the responsibility of governments.

Most contestability frameworks developed in recent years use extensive criteria, covering a range of market-specific factors, financial costs and benefits, agency-specific factors and service-specific factors. While these contestability criteria vary according to the size of the organisation and the nature of its activities, they generally include: Market-specific Factors; Costs and Benefits; Agency-specific Factors; and Service-specific Factors.

Continuum of Contestability

The Committee considers that current approaches to assessing contestability and suitability for contracting can be significantly improved by looking at contestability in terms of a continuum. Under this approach, the contestability of an activity can range on the continuum from very low (not suitable) to very high (highly suitable). The placement of an activity on the continuum depends on how it meets the designated criteria. Contestability should be considered where potential providers have the expertise to meet the tender specifications, the amount of money involved is greater, the purchasing power of customers is greater, the support needs of customers are lower, and there are no regulatory barriers to entry on some 'public interest' ground. Where a service falls on the continuum will determine whether it should be contestable or quarantined from contestability. At present, the continuum of

contestability approach to assessing the feasibility and desirability of contracting and competitive tendering is still under-developed in Australia, and the Committee believes further work on this model needs to be undertaken as a matter of urgency before services are subjected to contracting out and competitive tendering.

Role of Government

An important concern of this Inquiry was the role of government in setting and monitoring performance and accountability. In this regard, the Committee found strong agreement that the government has a central role to play in standards setting and monitoring performance and accountability. The Committee supports this position, and believes that governments, in partnership with other relevant stakeholders, should immediately examine the key areas of:

Robust Service Agreements

This Inquiry found that service agreements often do not provide clear statements covering the objectives of the agreement; the responsibilities of the various parties to the agreement and the price to be paid for specific outputs and outcomes.

Efficient and Fair Tender Processes

The Inquiry highlighted major inadequacies in current tendering processes, including poor communication and consultation between contracting agencies and service deliverers throughout the tender process which had resulted in misunderstandings in regard to contract requirements and a lack of transparency in the tender process; a lack of expertise in regard to the preparation of tender documents and ongoing contract management; a lack of subject matter knowledge which has led to inadequate contract specifications; a lack of clarity regarding the respective responsibilities and accountability requirements of contracting departments, service deliverers and clients; and unreasonable time frames being imposed on tenderers.

The Committee believes that contracting agencies have a key role to play in ensuring that tender processes are as robust and streamlined as possible.

Effective Ongoing Management of Service Agreements

The Committee believes that once the service has commenced, contracting agencies have a responsibility to ensure that the contract is managed efficiently and fairly throughout the period of the contract.

RECOMMENDATIONS

Impacts of Contracting Out and Competitive Tendering

1. The Committee recommends that the government agency remains accountable for the efficient and effective delivery of services, irrespective of whether welfare services are provided to clients by government agencies or through a contractor (**Paragraph 4.12**).
2. The Committee recommends the carrying out of detailed research into the impacts of contracting out and competitive tendering on the quality of welfare services, including international experience and research (**Paragraph 4.29**).
3. The Committee recommends that government agencies with responsibility for welfare service delivery should fund independent empirical studies into the impacts of contracting out on service quality. This research should seek the input of contracting agencies, service providers, consumer representatives and other relevant stakeholders (**Paragraph 4.30**).
4. The Committee recommends that government agencies with responsibility for the delivery of welfare services should fund independent empirical studies into the cost impacts of contracting out and competitive tendering. This research should reflect the input of contracting agencies, service providers, consumer representatives and other relevant stakeholders (**Paragraph 4.51**).
5. The Committee recommends that government agencies with responsibility for delivery of welfare services should fund independent empirical studies into the impacts of contracting out and competitive tendering on volunteerism in the welfare sector (**Paragraph 4.89**).
6. The Committee recommends that contracting agencies undertake a detailed assessment of the social and economic costs of applying competitive tendering processes in small rural and remote communities. Such assessments should canvass the input of all stakeholders in the communities concerned (**Paragraph 4.101**).

The Appropriateness of Tendering

7. The Committee recommends that a contestability continuum for welfare services should be developed by the Department of Health and Family Services, in conjunction with welfare organisations and providers before new welfare services are considered for contracting out. The criteria underpinning the contestability continuum should include service related and non-service related factors and be reviewed on a regular basis to take account of changes in organisational objectives and practices, technology and service markets, and that the contestability status of all welfare services be re-assessed at regular intervals (**Paragraphs 6.30 and 6.31**).
8. Further development of competitive tendering processes should not proceed until such an approach is adopted (**Paragraph 6.32**).

Developing Robust Service Agreements

9. The Committee recommends that contracting agencies should ensure that service agreements contain explicit statements covering:

- *the purpose of the agreement;*
- *the specific parties to the agreement;*
- *the specific duration of the agreement;*
- *the price to be paid for the specific outputs and outcomes and the circumstances in which prices may be varied.* Where the price to be paid does not cover the full cost of service provision, the contracting department should clearly specify this, stating that the service provider is expected to make a contribution to the cost of providing the service. The full amount of this contribution should be specified in the service agreement.
- *the times, amounts and methods of payments by the government;*
- *the outputs and outcome measures by which performance will be assessed.* Where outcomes are difficult to measure, these should be in terms of policy objectives;
- *the penalties and rewards for performing below or above agreed standards.* Consideration should be given to the increased use of rewards/incentives where service providers exceed the agreed performance standards;
- *a requirement for compliance with relevant State and Territory laws;*
- *the accountability requirements of the various parties to the agreement; and*
- *the mechanisms for resolving disputes (Paragraph 7.11).*

Managing Tender Processes

10. The Committee recommends that contracting agencies establish service charters to ensure that:

- *staff of government agencies are adequately trained in tender preparation and contract management before proceeding to contracting out of services;*
- *tender documents are prepared within a specified period;*
- *there is adequate advertising of the tender specifications and selection criteria so as to encourage the largest possible field of tenderers;*
- *there are mechanisms in place for responding to questions from tenderers prior to selection of the successful tenderer;*

- *there is an impartial and transparent assessment of tenderers against clear selection criteria;*
- *decisions as to the successful tenderers are made within a specified period. To this end, contracting agencies should commit to developing performance benchmarks for decision turn around time;*
- *successful and unsuccessful tenderers are notified of the outcome within a specified period; and*
- *contracts are provided within a specified period (Paragraph 7.15).*

Ongoing Management of Service Agreements

11. The Committee recommends that mechanisms be put in place to ensure that:

- *payments to service providers are made within the time specified in the service agreement, provided that there has been no breach of the terms of the contract. Late payment is to be avoided as this is likely to place a financial strain on service providers;*
- *there is regular communication with service deliverers to resolve any service delivery issues or concerns that may arise; and*
- *appropriate mechanisms are in place for receiving and considering grievances arising from the contracted activity. It is important that these mechanisms be accessible to all service stakeholders, especially users of the service who are located in rural and remote locations.*
- *performance of the service deliverer is monitored in accordance with the standards, benchmarks and performance indicators specified in the service agreement (Paragraph 7.17).*

12. The Committee recommends that the standards setting and performance measurement functions (including centralised data collection) for the welfare services sector be transferred to the Australian Institute of Health and Welfare (AIHW). Independent of government, the AIHW has responsibility for the collection and dissemination of welfare statistics, including the Supported Accommodation Assistance Program (SAAP) National Data Collection. It also has responsibility for developing standards and classifications for the welfare services sector. As such, this represents an expansion of the current responsibilities of the AIHW rather than the establishment of new infrastructure (**Paragraph 7.26**).

13. The Committee also recommends that service-specific advisory committees should be established, comprising an equal representation from the contracting agencies, service providers and consumer representatives, in order to facilitate the effective flow of information between all service stakeholders and the AIHW (**Paragraph 7.27**).

14. The Committee recommends that a clear statement of the contractor's responsibilities and those of the contacting agency be set out in the service agreement. This statement should cover:

- *Accountability of the service provider to the contracting agency for the services that they are providing. The government must be able to ensure that the contract is being fulfilled in a timely and appropriate manner, and that the legitimate scrutiny role of government is not being hindered by a lack of relevant information;*
- *Accountability of the service provider to the consumer of the service. Where welfare services are contracted out to non-government organisations, the consumer is the third party. As consumers of the service are not a party to the agreement, they may not necessarily have directly enforceable rights against the service provider, such as the provision of information access rights, privacy protection and complaints mechanisms;*
- *Accountability of the contracting agency to the service provider. Questions of accountability in contracting out often focus solely on the responsibilities of the service provider. However, it is also important that contracting agencies acknowledge their responsibilities to service providers by ensuring that the tender process is transparent and encompasses adequate mechanisms for unsuccessful tenderers to seek review, as well as adequate mechanisms for successful tenderers to seek redress for problems faced in performance of the contract (Paragraph 7.30).*

15. The Committee recommends that contracting agencies should adopt a continuum approach (see Chapter 6) in determining the level of financial and performance reporting (minimal or substantial) required of contractors. In terms of how rigorous the reporting should be, the amount of money involved is a useful indicator. In other words, where the amount of money is small, the simpler the information required of service deliverers should be, and the less rigorous the financial and performance reporting requirements should be. The larger the service agreement, the more rigorous the tender specifications, the more rigorous the financial and performance reporting requirements should be, and the more appropriate it is to require contractors to be accredited (**Paragraph 7.33**).

CHAPTER ONE

BACKGROUND TO THE INQUIRY

The Inquiry Process

1.1 On 3 April 1997, the Minister for Health and Family Services, the Hon Dr Michael Wooldridge, MP, wrote to the then Chairman, Mr Peter Slipper, MP, referring the Inquiry into competitive tendering of welfare service delivery to the Committee.

1.2 The Inquiry's terms of reference required the Committee to undertake a detailed examination of current service delivery arrangements in this important sector and provide a more effective basis for future decisions regarding the adequacy of monitoring of standards and an appropriate role for government in measuring the efficiency and effectiveness of new service delivery arrangements.

1.3 The Inquiry was advertised in the major metropolitan newspapers. Letters seeking submissions were also sent to Commonwealth departments and agencies, State Premiers, Territory Chief Ministers and a range of peak organisations, professional bodies representing various interest groups and individuals likely to have an interest in the Inquiry. The Inquiry attracted a total of 169 submissions, together with a large volume of supplementary information. A list of the organisations which participated in this Inquiry is shown at Appendix 1.

1.4 The Committee took evidence at 10 public hearings, conducted in Canberra, Sydney, Melbourne, Hobart, Adelaide, Perth, Brisbane and Townsville. In addition, the Committee visited the Meals on Wheels Service Centre at Glenelg, South Australia.

Scope of the Inquiry

1.5 The use of contracting by public sector agencies for the delivery of services is widespread in Australia, with total contract expenditure estimated at some \$13 billion a year.² In some jurisdictions, social and economic pressure to provide greater efficiencies and increased flexibility in service delivery has led to contracting being expanded beyond the traditional service areas of refuse collection and cleaning to 'core' government services such as prison management, employment assistance and hospital services. This expansion has led to a redefining of responsibilities and relationships between key stakeholders and raised important questions of accountability and quality, equity and distributional impacts of contracting, and the suitability of pro-competitive models for particular services.³

² Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies, Draft Report*, Canberra: AGPS, 1996, p.3.

³ Quiggin, J, *Competitive tendering and contracting in the Australian public sector*, Australian Journal of Public Administration, 1996, 55 (3), 1996; Hilmer, F.G, *National Competition Policy Report*, Canberra: AGPS, 1993; Commonwealth of Australia, *Contracting of the Provision of Services in Commonwealth Agencies*, Canberra: AGPS, 1992.

1.6 Some of these questions have been raised in the context of government funded welfare services.⁴ However, there has been no detailed examination of the desirability and feasibility of increased contracting out and competitive tendering of welfare services. The present Inquiry is the first to specifically examine this question and the core issues surrounding it, including:

- the current levels of welfare service provision by the non-government welfare sector;
- the adequacy of current monitoring of performance standards for services delivered by the non-government welfare sector;
- the costs and benefits provided by increased contracting out of government services;
- the role of government in standards setting and monitoring of accountability standards; and
- the role of government in measuring the efficiency and effectiveness of new service delivery arrangements.

1.7 The reference sent to the Committee by the Minister for Health and Family Services, the Hon Dr Michael Wooldridge, MP, in April 1997, requested that the Committee review and report on the "desirability and feasibility of increased contracting out of welfare service delivery by all service providers". Under the terms of reference, contracting out was defined as an arrangement whereby a government agency enters into a contract with a supplier from outside that agency for the provision of goods and/or services. However, it became clear from initial submissions from the sector that in order to properly assess the desirability and feasibility of contracting out, the Committee would also need to examine the related issue of competitive tendering.

1.8 Consequently, the Committee has expanded the terms of reference for the Inquiry to include the issue of competitive tendering, whereby government agencies engage in a process of selecting a preferred service provider from a range of potential providers by seeking tenders and evaluating these on the basis of one or more selection criteria.

1.9 The Inquiry covers contracting out of government welfare services to the not-for-profit organisations and the private sector by Commonwealth, State, Territory and local governments and their agencies. For the purpose of this Inquiry, welfare services included a wide range of activities, such as personal care, accommodation, support and counselling to

⁴ Industry Commission, *Charitable Organisations in Australia's*, Canberra: AGPS, 1994: xx.

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

Lyons, M, *Reforming Australia's Community Services - A Review of Proposals*, ACOSS Paper No. 13, Sydney, 1995.

children, families, people with a disability, older people, the unemployed, the homeless, people suffering addictions, refugees and members of ethnic communities in the context of continued government responsibility for such services.

1.10 The focus of the third term of reference, namely an assessment of the costs and benefits of contracting out and competitive tendering, has also been changed to an assessment of the impacts of contracting out and competitive tendering on factors such as accountability, service quality, cost of service, the welfare services sector and rural and remote regions. This change in focus was in response to strong evidence which suggested that what was regarded by some witnesses as a benefit, was considered to be a cost by others.

CHAPTER TWO

Funding of Welfare Services

Introduction

2.1 Recent years have seen substantial changes to the way in which welfare services are delivered. At a broad level, these changes reflect the international trend which, over the past 20 years, has seen the governments of most industrialised countries steadily reduce their roles, responsibilities and thus their size. Ball and Carthew⁵ argue that this trend had its genesis in the global recession of 1973 which initiated a long-term process of structural adjustment, including reductions in government deficits and expenditures, and in some countries, reductions in personal taxation. In welfare services, the international trend has been for governments to pass these responsibilities to the not-for-profit community sector and private for-profit sector by contracting or privatising former state-run public welfare institutions.

Context of Reform

2.2 In Australia, similar changes are taking place, with major implications for governments in terms of their future role in welfare and their relationship with non-government service providers. These changes, which are discussed below, have been driven by:

- the Council of Australian Governments' (COAG) adoption of the Hilmer Report on National Competition Policy (1994) and the Industry Commission examination of Charitable Organisations (1995) in Australia and Competitive Tendering and Contracting by Public Sector Agencies (1995), which argue that all government activities should be potentially subject to competitive tendering unless they can be shown to be 'core' operations;
- national micro-economic reform; and
- national and international trends among governments to provide human and other services through contracting with private and non-government agencies in order to increase economic growth through more efficient and effective use of resources spent on public services and their administration; provide greater choice to consumers; and offer more holistic services to those in need of them⁶.

⁵ Ball and Carthew, *Changing Government - Community Sector Relationships in Tasmania: Views and Proposals*, 1997: 8.

⁶ Ball and Carthew, *Changing Government - Community Sector Relationships in Tasmania: Views and Proposals* 1997: 3.

National Competition Policy

2.3 In its inquiry into national competition policy, the Hilmer committee argued for the need to reform Australia's economy through improving productivity, producing more with less and deploying scarce resources wisely. The report noted that competition was a positive force that assists economic growth and job creation. Competition policy was seen as facilitating effective competition to promote efficiency and economic growth while at the same time accommodating situations where competition does not lead to efficiencies or conflicts with other social objectives.⁷

2.4 The following arguments were advanced in support of a national competition policy:

- there is a need for a single integrated market in recognition of the diminishing significance of State and Territory boundaries and the increasing national orientation of commercial life in Australia;
- despite the increased competitiveness of the internationally traded sector, many goods and services provided by public utilities, professions and some areas of agriculture are sheltered from international and domestic competition; and
- domestic pro-competitive reforms have been progressed on a sector-by-sector basis, without the benefit of a nationally consistent policy framework or process.⁸

2.5 A number of changes to the Trade Practices Act were recommended in respect of prohibitions on anti-competitive agreements, the misuse of market power, resale price maintenance and certain mergers or acquisitions. In addition, further recommendations were made in respect of a range of policy elements associated with building a more competitive economy, including regulatory restrictions on competition, structural reform of public monopolies, access to essential facilities such as rail services, monopoly pricing and competitive neutrality.

2.6 The following set of principles were proposed for guiding the implementation of a national competition policy:

- no participant in the market should be able to engage in anti-competitive conduct against the public interest;
- as far as possible, universal and uniformly applied rules of market conduct should apply to all market participants regardless of the form of business ownership;
- conduct with anti-competitive potential said to be in the public interest should be assessed by an appropriate transparent assessment process, with provision for review, to demonstrate the nature and incidence of the public costs and benefits claimed; and
- any changes in the coverage or nature of competition policy should be consistent with, and support, the general thrust of reforms.

⁷ Hilmer, *National Competition Policy Report*, 1993: xvi.

⁸ Hilmer, *National Competition Policy Report* 1993: xvii-xviii.

COAG Reforms

2.7 At the April 1995 Council of Australian Government's (COAG) meeting, a number of agreements were signed. These were designed to bring about a more competitive integrated national market through rationalising Commonwealth/State roles and responsibilities, reducing duplication in administration and delivery of services and programs, promoting greater integration and coordination of services, and introducing new financing arrangements for a range of human services programs. These agreements give effect to many of the recommendations and principles contained in the Hilmer report on National Competition Policy. Among other things, these agreements require Governments to:

- operate government businesses in such a way that they do not enjoy any net competitive advantage simply as a result of their public ownership (the competitive neutrality principle);
- conduct an independent review before either privatising or introducing competition to a traditional public sector monopoly;
- review, and where appropriate, reform all legislation that restricts competition by the year 2000; and
- consider establishing a body to monitor the prices charged by government businesses that are monopoly or near monopoly providers of goods and services.

2.8 In addition, all Australian States and Territories were required to prepare, by June 1996, a policy statement on how they will apply the competitive neutrality principles, a timetable for implementation and a complaints mechanism. Thereafter on an annual basis, all State and Territory Governments were required to produce an annual report outlining progress with the implementation of the policy and reporting on any allegations of non-compliance.⁹

2.9 Since its election in March 1996, the new Commonwealth Government has indicated its intention of continuing to implement a policy of increased devolution to the States and Territories of program management and administration. This policy is consistent with the view of State and Territory governments in terms of the increased division of roles and responsibilities between the two levels of government.¹⁰

2.10 Also relevant for the move toward service purchasing for human services have been two recent inquiries by the Industry Commission.

⁹ Department of Treasury and Finance Tasmania, 1996: 57.

¹⁰ Rogan, L, Johnston, C and Morgan, E, *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 19.

Industry Commission Inquiry into Charitable Organisations in Australia

2.11 In 1993, the Industry Commission initiated an inquiry into the size, scope, efficiency and effectiveness of the services provided in Australia by charitable organisations as well as their funding sources. The final report was completed in June 1995. The inquiry collected a wide range of data on the welfare services sector which illustrated the size and diversity of the sector and its substantial contribution to the social and economic welfare of the Australian community.

2.12 The Commission proposed a series of measures which it claimed would strengthen the welfare sector, including: assisting the sector to develop the services it provides to its clients; establishing better partnerships between non-government organisations and governments; promoting greater professionalism among its managers and employees; and encouraging members of the community to give time and financial assistance to the sector.¹¹

2.13 The inquiry highlighted many of the difficulties with government funding arrangements for welfare organisations, including:

- the lack of a consistent set of principles for funding service agreements;
- the need for governments to ensure that funding agreements are flexible enough to provide for adjustments for any changes in the costs of delivering services that are beyond the control of service providers; and
- the need for Commonwealth and State/Territory Governments to ensure that funding agreements take into account the full cost of providing the service, including organisational overheads, staff training, training, co-ordination and indemnification of volunteers, research and development and program development and evaluation;

2.14 Key recommendations relevant to the present Inquiry were that:

- governments develop a consistent set of principles for funding agreements across all programs;
- payments under funding agreements be linked to the achievement of defined outputs wherever possible;
- governments ensure that funding agreements for welfare organisations provide for adjustments for any changes in award conditions;
- governments develop a consistent set of principles for the selection of service providers;
- governments fund the establishment of a pilot best practice programs for the sector;
- governments, in consultation with the community sector, develop an accredited quality management system based on agreed quality standards and quality management principles; and

¹¹ Industry Commission, *Charitable Organisations in Australia's*, Canberra: AGPS, 1994: xx.

- governments, as a condition of funding, require community sector organisations to adopt an agreed and accredited quality management system.

2.15 In addition, the Industry Commission identified a number of associated issues of interest to the present Inquiry, including:

- the adequacy of current reporting requirements;
- the appropriate threshold level of income in order to discharge the accountability obligations of welfare organisations;
- the appropriate mechanisms for improving the accountability of organisations established under Acts of Parliament; and
- the direct funding of organisations, particularly in the context of the needs of rural and remote communities.

Industry Commission Inquiry into Competitive Tendering and Contracting by Public Sector Agencies

2.16 The Industry Commission Inquiry into Competitive Tendering and Contracting by Public Sector Agencies was completed in January 1996. Mirroring aspects of the present Inquiry, the Commission was specifically asked to examine the nature and extent of contracting out in the public sector, the costs and benefits of contracting out, including its effect on wages and working conditions, the effectiveness of existing mechanisms for contracting out, and to develop principles for assessing its suitability.

2.17 That inquiry found that while competitive tendering was used extensively at all levels of government, expenditure through contracting out was concentrated in a relatively small range of services, namely contract staff, program services, information technology, training and staff development, transport and construction¹².

2.18 The Commission argued that competitive tendering and contracting, based on effective competition, has the potential to provide significant improvements in accountability, quality and cost-effectiveness, as well as providing increased benefits to taxpayers, consumers and the community in general. At the same time, the Commission stressed that competitive tendering and contracting is not an end in itself, and that to be effective, such an approach needs to focus on outcomes rather than processes, requires a cultural change in government and a new mix of skills, and must be based on consultation between all stakeholders.

2.19 The inquiry recommended that the suitability of competitive tendering and contracting out should be assessed on a case-by-case basis, rather than on broad categorisations of

¹² Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, Draft Report, Canberra: AGPS, 1995: 67.

services, such as 'core' and 'non-core', and proposed a list of principles to be used in this assessment¹³ These principles included:

- identifying the legal, constitutional or international constraints;
- reviewing agency functions in terms of its policy goals;
- identifying alternative service delivery options;
- assessing the risks arising from factors specific to the service, the market and the agency; and
- weighing the costs and benefits of competitive tendering and contracting out against other service delivery options.

Funding Models for Welfare Services

2.20 Within this context, State and Federal governments have sought to remodel the way in which welfare services are funded. According to Rogan et al¹⁴, this remodelling in the allocation of funds to welfare services was characterised by a number of important changes, including the following:

- development of frameworks for prioritising and targeting the allocation of resources based on population distribution;
- increased use of qualitative and quantitative planning data in the allocation of grants;
- introduction of tighter specification of the services being funded;
- classification of grants into specific programs, each program having its own policy objectives and administrative frameworks;
- clarification of the requirements of applications, reporting, data collection and accountability;
- extension of government subsidies to for-profit providers in areas such as child care and aged care in order to encourage rapid growth and expansion of particular services;
- introduction of individualised funding in some service areas; and
- development of standards and accreditation systems as a way of evaluating service quality.

¹³ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, Draft Report, Canberra: AGPS, 1995: 28-29.

¹⁴ Rogan, L, Johnston, C and Morgan, E, *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997.

2.21 There is currently an extensive range of models used to fund welfare services in Australia. Governments contribute both directly and indirectly (through tax concessions) to the funding of many non-government welfare organisations in Australia. At the same time, many welfare organisations also rely on revenue from user charges as well as independent fundraising. Lyons¹⁵ has summarised the current funding arrangements in terms of six models:

- *Government as a philanthropist model* - where government acts as a wealthy individual, providing support for a particular project after being approached by a community organisation. Under this model, little formal reporting is required.
- *Submission model* - where the government appropriates funds for particular types of services and seeks submissions from community organisations interested in providing those services. Under this approach, levels of funding for each participating organisation are determined after negotiation. Reporting requirements tend to be more demanding and continued funding is generally assured.
- *Planning model* - where government determines, in consultation with community organisations and peak bodies, the types, level and location of services, and where community organisations are encouraged to provide the service. Under this approach, governments identify and fund outputs and require a great deal more data on users and finances from community organisations.
- *Competitive tendering model* - where government determines the types, levels and locations of services, without consultation with the community sector and invite organisations, usually both for-profit and not-for-profit, to tender to provide those services. Under this model, the government will fix a price it will pay for the provision of the service. Contracts are awarded for a fixed period and new expressions of interest are called for at the end of the contract period. Service specifications are often set out in the form of a conventional commercial contract.
- *Quasi-voucher model* - where governments agree to meet all or part of the costs of accessing certain services for certain classes of people. Under this system, the government pays approved service providers a pre-determined amount according to pre-determined conditions, such as the level of income or degree of disability of their clients. Under this system, the government uses its ability to withdraw approval as a lever to assure quality of services.
- *Individualised or consumer-focused funding*. Under this arrangement, the government directly funds (as seen in the area of disability services) or subsidises consumers of services, as in the case of the Child Care Assistance granted to some parents.

¹⁵ Lyons, M Reforming Australia's Community Services - A Review of Proposals, ACOSS Paper No. 13, Sydney, 1995a.

2.22 At present, most welfare programs are funded through the planning model, having previously been funded under the submission model. A few State/Territory programs are funded under the competitive tender model, while many of the Commonwealth programs have moved on to the quasi-voucher funding model. More recently, there has been a trend toward contracting out and competitive tendering of welfare services. The following discussion summarises the approaches taken by the States in relation to the funding of welfare services.

Reforms in the States

Victoria

2.23 Victoria was the first State to embark on extensive reform of the State's health and welfare services. This commenced in 1986 with the establishment of a Research Group on the Funding of Non-Government Agencies within the Department of Premier and Cabinet, which recommended the introduction of service agreements based on service quality and performance indicators. Over the four years that followed, Community Services Victoria sought to introduce service purchasing agreements based output-based funding, thus moving away from historical allocations and/or submissions where funding agreements were local and varied. Originally intended as a formal arrangement between funding agencies and service providers, the service agreements were seen as:

- providing an explicit link between funding and service delivery on prior specification of the type and level of services and the outcomes towards which service provision would be directed;
- negotiating the terms and conditions that were to apply to funding and service provision;
- defining mutual obligations, roles and responsibilities; and
- providing a format that would combine standards conditions with arrangements tailored to the circumstance of particular service provider organisations, service users and local communities.¹⁶

2.24 Under the current arrangements, outputs provide the basis of pricing and accountability; service agreements do not have the status of legal contracts; information and reporting requirements are determined by the level of funding allocated in the service agreement; and competitive tendering is to apply mainly to new services or programs. However, the system of pricing is not fully developed and, as a consequence, purchasing is occurring at below the full cost of service. Furthermore, mechanisms for measuring performance and service quality are yet to be properly developed.¹⁷

¹⁶ O'Neill, D, Not Quite the Contract State: Service Agreements in Victoria, In: Contracting for Care, *Centre for Australian Community Organisations and Management (CACOM)*, University of Technology, Sydney, 1996: 161-162.

¹⁷ Rogan, L, Johnston, C and Morgan, E , *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 23-24.

2.25 At present, most welfare services are purchased through the Department of Human Services, which is responsible for preparing funding and service agreements for each funded non-profit organisation. While standard performance indicators, broad policies, funding parameters as well as the types of services to be purchased are determined centrally, responsibility for purchasing decisions and management of service agreements have been devolved to the regions.

New South Wales

2.26 Following the failed 1992 attempt to introduce comprehensive competitive tendering for all existing services under the major State funded Community Services Grants Program, the tendering that has occurred has been predominantly for new services or for those transferred out of government hands, for example, substitute care. This reflects the NSW Government's policy of not disturbing existing infrastructures and service arrangements in the area of welfare.¹⁸

2.27 While funding for welfare services provision in New South Wales continues to rely on funding models based on historical agreements, needs-based planning and grants in response to submissions, funding departments have become more prescriptive in deciding what services will be funded. To this end, a number of key initiatives have been undertaken over the past five years aimed at achieving change in funding arrangements based on the notion of increased performance through competition.

2.28 The first of these was the 1992 introduction of generic funding arrangements by the Department of Community Services, aimed at reducing the number of government departments involved in managing funding agreements and establishing clearer service specifications and performance and accountability measures.¹⁹

2.29 This was followed by the release of draft guidelines on the funding of non-government organisations in October 1995. These guidelines emphasised the need to achieve greater consistency in the funding relationship between community sector organisations and funding departments based on the concept of a funding compact between government and the community sector.

2.30 In 1997, the (NSW) Council on the Cost of Government released new service competition guidelines aimed at providing a framework for using competitive forces, directly (competitive tendering) or indirectly (comparing the performance of in-house providers to the best known performance achieved elsewhere), to achieve best value for money. Among other things, the guidelines were intended to provide broad guidance for determining the suitability of an activity for competitive tendering, preparation of contract specifications, evaluating bids and contract transition and monitoring.²⁰

¹⁸ New South Wales Treasury, *State Government Funding of Non-Government Organisations: A Guide to Funding Policies and Procedures* (draft paper), NSW Government, Sydney, 1995: 4.

¹⁹ Rogan, L, Johnston, C and Morgan, E *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 26.

²⁰ New South Wales Government, *Service Competition Guidelines: New South Wales 1997*, Sydney: Council on the Cost of Government, 1997.

South Australia

2.31 Funding of welfare services in South Australia has traditionally been based on a submission driven process, in which prospective service providers defined their service needs in terms of client groups, amount and location. In the 1990s, this traditional approach to funding changed with the move towards contracting out of government services and adoption of a service purchasing model as a basis for funding the delivery of welfare services.

2.32 Commenting on this shift from submission-based funding to service purchasing, the South Australian Department of Family and Community Services argued:

"While this [submission-based] system of funding gave providers a high degree of self-determination and flexibility in determining and delivering community services, it also presented two serious drawbacks for government in ensuring and accounting for the best possible application of public funds in grants programs. The first was that there were not any written policies which stated specifically who the priority beneficiaries of services were to be and what benefits were expected to be achieved for them. The second drawback was that there were no funding plans which determined what range and geographic distribution of services were required to achieve the desired outcomes where they were most needed".²¹

2.33 In June 1995, the government released a new set of guidelines and principles for contracting out and competitive tendering, aimed at achieving the aims implicit in service purchasing (ie. improved quality and accountability, focus on outcomes, value for money). These guidelines, entitled *All About Contracting Out: Value for Money for South Australia by Competitive Tendering and Contracting Out*,²² require government agencies to prepare a "scoping" document for Cabinet, containing, among other things, a review of the effectiveness and efficiency of their programs, as well as a set of criteria for determining the suitability of a service for competitive tendering.

2.34 To date, the move towards service purchasing has not led to a dramatic increase in the number of welfare services being contracted out to non-government providers. The only recent instance in which a core welfare service has been contracted out by the Department of Family and Community Services is in the provision of alternative care placement services, where much of the service delivery was already being provided by non-government organisations.

Queensland

2.35 While the purchaser/provider model of funding welfare services has been introduced in Queensland, the pace of reform has been moderate compared to other States.

²¹ Family and Community Services South Australia, *Contracting in Community Services*, Position Paper 1996: 5.

²² Office of Public Sector Management, *All About Contracting. Value for Money for South Australians*, Department of Premier and Cabinet, Government of South Australia, Adelaide, 1995.

Furthermore, throughout most of the 1980s and early 1990s, the government was reluctant to impose reforms, including changes to funding arrangements, which threatened to disrupt existing relationships between the government and community sector organisations.²³

2.36 Since the mid-1990s, the Government has sought to bring welfare services delivery into line with Commonwealth Government moves to redefine the relationship between government and community organisations based on the increased use of market approaches to public sector management.²⁴ These moves are outlined in two recent Queensland Government reports:

- Queensland Treasury released guidelines (1995) designed to improve the administration and accountability of grants to welfare organisations by aligning grant processes and procedures with the basic principles of program management; and
- the Department of Families, Youth and Community Care released a discussion paper outlining a new performance measurement model (1995).

2.37 The Queensland Government has just published its broad framework for the funding of welfare service provision ahead of the introduction of accrual output budgeting across the Queensland Public sector in 1999/2000. This framework, outlined in the *State Social Development Strategy*²⁵, sets out the broad principles on which future contracting out of welfare services is to be undertaken. These include:

- *Enhanced service delivery* - ensuring that service delivery is undertaken by a range of providers, including both government and non-government sectors, with government to ensure the timely delivery of quality services based on patterns of settlement and socio-demographic change;
- *Coordinating and integrating responses* across government agencies delivering social services to meet the government's identified outcomes;
- *Outcome focus* - specifying the outcomes sought by the government and the social service outputs which are required to achieve them;
- *Targeted provision of services* - emphasising access and equity in the provision of services and infrastructure, by ensuring the accessibility of services across remote, rural and urban communities, as well as to people with special needs, and providing targeted services where appropriate;

²³ Ryan, N, Contracting Community Services in Queensland, In: Contracting for Care, *Centre for Australian Community Organisations and Management* (CACOM), University of Technology, Sydney, 1996: 67.

²⁴ Fitzgerald, V., Carmichael, J., McDonough, D. and Thornton, B, Report of the Queensland Commission of Audit, In: Contracting for Care, *Centre for Australian Community Organisations and Management* (CACOM), University of Technology, Sydney, 1996.

²⁵ Queensland Government, *Strategic Plan 1997-2007 State Social Development Strategy*, 1997.

- *Service standards* - allocation of resources to achieve determined service standards by benchmarking welfare service delivery against best practice;
- *Consultation* - improving consultation amongst all spheres of government and the community in planning and delivery of social services, taking account of cultural and ethnic backgrounds; and
- *Consumer choice* - ensuring that consumers exercise consumer sovereignty in indicating their service preferences for particular service providers and, where possible, exercise choice over the quantity and quality of services provided.

Western Australia

2.38 Up until the 1980s, the State government had played a major role in the delivery of welfare services in Western Australia. Since that time, many of these services have been outsourced, with the government assuming the role of purchaser and community-based agencies becoming more significant players in the delivery of services.²⁶

2.39 In 1995, the Western Australian Government replaced the longstanding submission-based funding system with a new generic funding model based on a modified form of service purchasing. The new generic funding model requires that:

- needs and existing services be reviewed at the district level with a view to establishing service specifications;
- a generic funding agreement with differential requirements for information and reporting, based on the amount of funding allocated, be adopted;
- funded organisations return surplus funds at the end of the financial year;
- competitive tendering be applied for new services, using a call for expressions of interest to identify potential providers;
- preferred provider status be conferred on existing service delivers, subject to agencies demonstrating their ability to meet performance and accountability requirements; and
- outcomes and joint annual evaluations provide the basis of service reporting.

²⁶ Rogan, L, Johnston, C and Morgan, E, *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 25.

CHAPTER THREE

Current Levels of Welfare Provision in Australia

Introduction

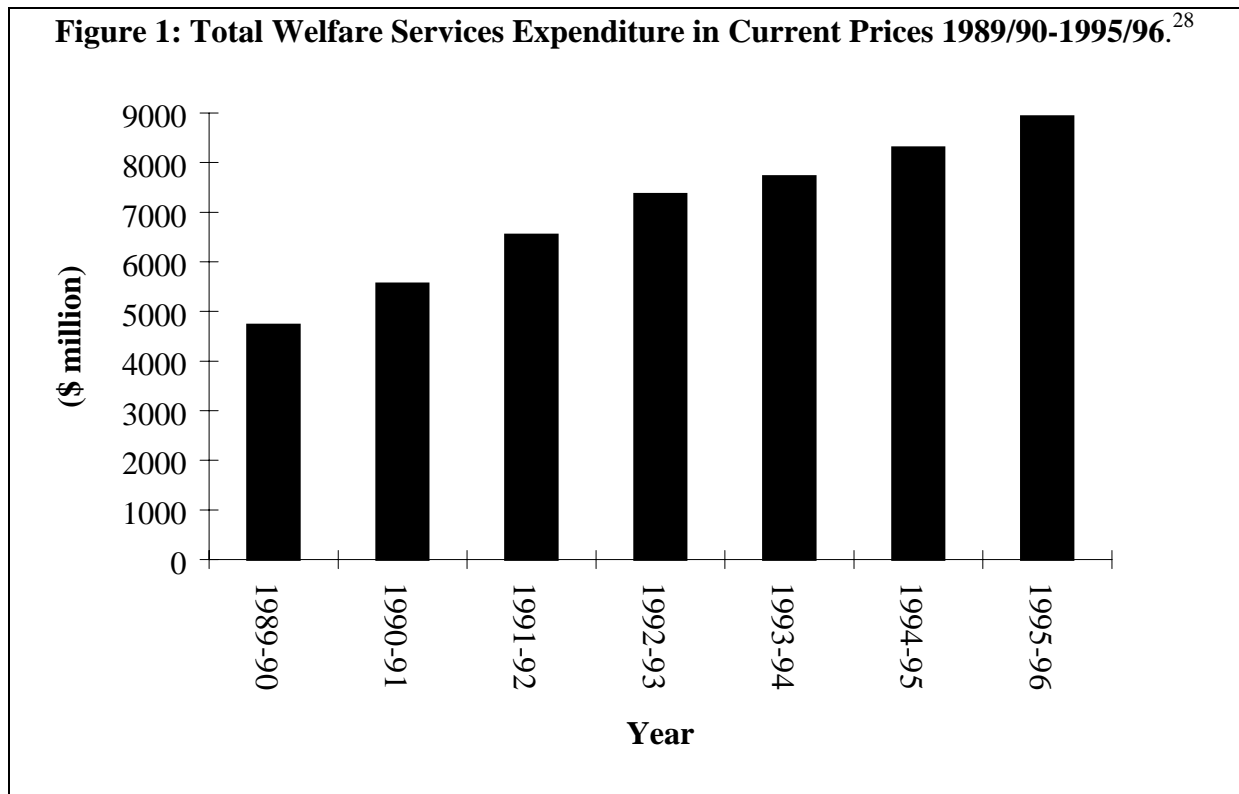
3.1 Welfare services encompass a large and diverse range of services, including aged care, disability services, community, individual and family services as well as child care and employment programs. The precise nature of the sector is difficult to measure due to the absence of comprehensive and timely data, the most recent of which is from the 1995/96 financial year. The Committee considers that there is clear need for improved data collection and measurement in the welfare sector and that increased resources should be set aside for this purpose.

3.2 It is estimated that these services are delivered by some 11,000 community-based and church-affiliated organisations, as well as numerous private for-profit companies and State/Territory and Commonwealth Government agencies. Some of these organisations, such as the Salvation Army, Centrecare, the Australian Red Cross and Anglicare employ large numbers of paid professional staff and volunteers, with substantial investments in infrastructure and revenues estimated to be in excess of \$100 million dollars. The majority of welfare organisations, however, are small, with annual budgets of less than \$100,000. These organisations are often staffed primarily by volunteers, providing a specialised serviced to numerous groups in the local communities within which they operate.²⁷

²⁷ Industry Commission, *Charitable Organisations in Australia*, Canberra: AGPS, 1994: xxi-xxii.

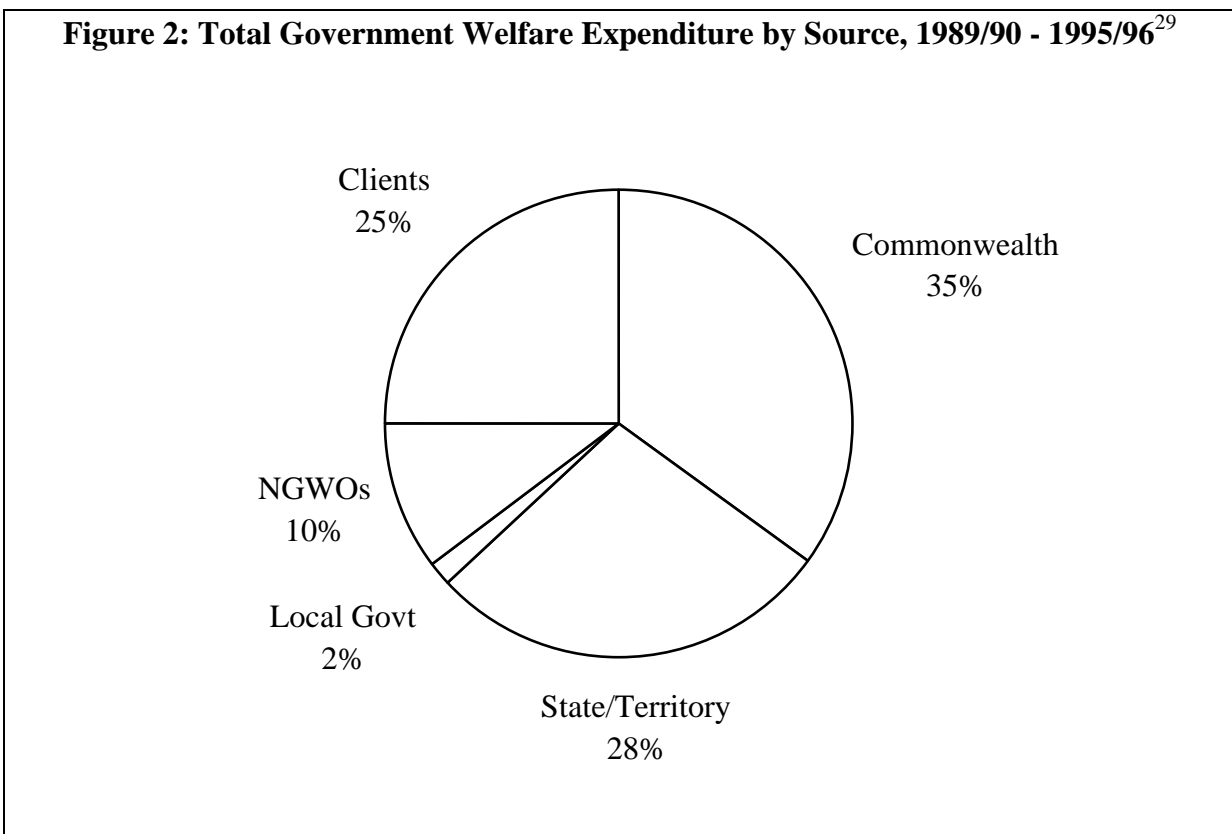
Welfare Expenditure in Australia

3.3 It is estimated that in 1995/96, \$8.9 billion (or 1.8 percent of GDP) was spent on providing welfare services, an increase of 89 percent since 1989/90 (see Figure 1).



²⁸ Australian Institute of Health and Welfare, *Community Welfare Services Expenditure Bulletin*, 1997: p.20

3.4 Of this, 65 percent (\$5.8 billion) was funded by Commonwealth, State/Territory and Local Governments, and 10 percent (\$0.9 billion) by non-government welfare organisations. Clients contributed 25 percent (\$2.2 billion) for welfare services and child care services provided by governments and non-government organisations (see Figure 2).



3.5 In Australia, service provision is primarily carried out by non-government welfare organisations. In 1994/95, these organisations delivered \$4.9 billion worth of services to the community, while the government sector delivered services estimated at \$3.1 billion.

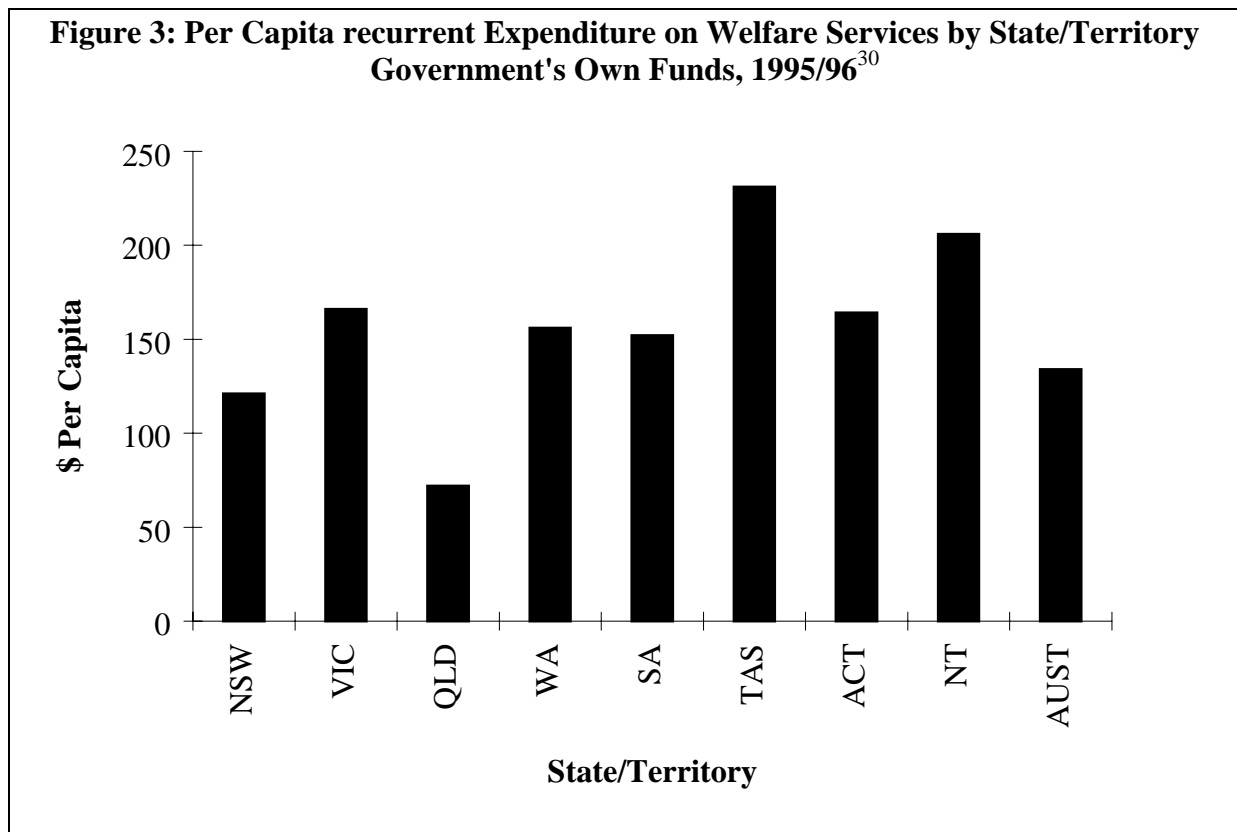
3.6 The Commonwealth Government is primarily a funder of services rather than a provider of services. In 1994/95, \$292 million or 11 percent of total Commonwealth Government outlays was spent on welfare provision. The remainder was allocated to State and Territory Governments (29 percent), Local Governments (12 percent) and non-government welfare organisations (59 percent). The Commonwealth Government spent \$292 million on direct service provision, compared with a total funding of \$2.8 billion.

3.7 The State and Territory Governments are both funders (\$2.4 billion in 1994/95) and providers (\$2.2 billion). Local Governments, on the other hand, are predominantly service deliverers, delivering \$617 million worth of services and funding \$98 million. Some of the transfers from the Commonwealth Government to Local Governments are, in turn, transferred to non-government welfare organisations.

²⁹ Australian Institute of Health and Welfare, *Community Welfare Services Expenditure Bulletin*, 1997: p.20.

The States and Territories

3.8 On a per capita basis, the Tasmanian Government's expenditure on welfare services in 1995/96 was higher than any other State or Territory. As Figure 3 shows, in 1995/96, Tasmania spent \$231 per person on welfare services. This contrasted with Queensland, which spent only \$72 per person, substantially less than any other State or Territory.



Areas of Welfare Expenditure

3.9 In 1994/95, services for the aged and people with a disability accounted for around 58 percent of recurrent expenditure on welfare services by the Commonwealth and State and Territory Governments. Family and child welfare services accounted for a further 32 percent of outlays.

3.10 Between 1989/90-1995/96, welfare services expenditure by the government sector increased at an average annual rate of nine percent, for a total increase of 64 percent over the period 1989-90 to 1995-96. On a per capita basis, expenditure rose by an average rate of 7.3 percent a year or 53 percent over the period.

³⁰ Australian Institute of Health and Welfare, *Community Welfare Services Expenditure Bulletin*, No.2, 1997: p.16

3.11 Growth in Commonwealth Government expenditure on welfare services is due to significant increases in services for the aged and people with a disability and in family and child welfare services.

3.12 Increases in services for the aged and disabled people over the recent past reflect:

- the rearrangement of functions between the States and Territories and the Commonwealth under the 1991 Commonwealth-State Disability Agreement (CSDA);
- the expansion of the Home and Community Care (HACC) Program for aged persons and people with a disability;
- funding by the Commonwealth Government to the States and Territories for fringe benefits such as concessions on electricity and rates for pensioners and aged long-term recipients of allowances and benefits;
- an additional \$42 million being allocated for the implementation of changes to the Disability Services Program;
- an extra 1,571 places being created in the Disability Services Program; and
- an additional 285 people being placed in major companies and Local Government Authorities with the assistance of special employment officers.

3.13 Concurrently, growth in Commonwealth Government expenditure on family and child welfare services is due to:

- the increase in the number of Commonwealth-funded child care places;
- an increasing proportion of Commonwealth transfer payments for family and child welfare services to non-government welfare organisations, particularly family day care and those providing outside school hours care and centre-based long-day child care;
- the expansion of child care assistance to users of private-for-profit and employer-sponsored long-day care centres;
- an appreciable increase in Commonwealth payments to family day care coordinating organisations and to providers of outside school hours care; and
- the equity of access to care policy, under which long-day child care providers are given funds to employ specialised staff to assist children with disabilities and children who have difficulties in integrating with others due to language and cultural barriers.

CHAPTER FOUR

Impacts of Contracting Out and Competitive Tendering of Welfare Services

Impacts on Accountability

4.1 Under the terms of reference, the Committee was required to review the benefits and costs of increased contracting out and competitive tendering. One of the key emerging issues considered by the Committee concerned the impacts of increased contracting out on accountability.

Definition of Accountability

4.2 In essence, accountability refers to:

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

³¹

4.3 Historically, government agencies, in their role as service providers, have been primarily responsible for ensuring that public funds were spent on efficient and effective provision of welfare services. Over the past decade, however, the introduction of the purchaser-provider model has led to a redefinition of the roles and responsibilities of funding agencies and service providers, and raised questions about who is accountable, to whom, and for what.

4.4 In considering how contracting out and competitive tendering has affected accountability, the Committee was presented with a wide range of divergent views.

4.5 A number of government agencies and non-government organisations expressed the view that increased contracting out can lead to a diminution of accountability as lines of responsibility become blurred and mechanisms for accountability are reduced. Key factors include:

- an emerging trend among some senior government officers to regard contracting out of services delivery as a means of contracting out the risk; and
- lines of accountability become extended, such that service stakeholders are unable to determine who is responsible for ensuring service standards.

³¹ Doern, G.B, Political Accountability and Efficiency, Ottawa Government and Competitiveness School of Policy Studies, Queens University, Discussion Paper Series, 1993: 4.

4.6 The Department of Health and Family Services expressed the view that accountability could be eroded given the extent to which Commonwealth-funded welfare services are delivered to clients through, or in conjunction with, the States.³² This can give rise to less precise lines of communication, resulting in:

- poor feedback loops into program management and policy advice so that policy analysis and advice is less well-informed, less well-grounded in the practicalities of service delivery, and less responsive to client needs;
- the purchaser knowing less about the adequacy and outcomes of service than the provider; and
- service delivery being slower to respond to changes in policy as the changes may need to be renegotiated on a provider-by-provider basis.

4.7 These problems may be exacerbated, according to the Department of Health and Family Services, if:³³

- funding and contract conditions for such services are set unilaterally by the Commonwealth;
- there are differences between funding agreements with State and Territory governments and the Commonwealth; and
- there are differences in mechanisms (eg. sector accreditation) for ensuring accountability between the States and Territories and the Commonwealth.

4.8 However, other witnesses suggested that contracting out can enhance accountability in the following ways:

- it requires government agencies to clearly specify the service to be delivered and to allocate precisely responsibilities between the agency and the contractor for the delivery of the service, which makes it easier to identify instances where there has been a failure by the contractor or agency;
- it requires government agencies to specify the criteria on which the contractor's performance is to be measured and monitored;
- it enhances the capacity of consumers to achieve redress where there are a number of providers between whom purchasers and consumers may choose; and
- where policy, service delivery and accountability are the responsibility of the same department or agency, there is potential for a lack of clarity, or a conflict of interest, with regard to responsibilities. Thus separating service delivery (through contracting out) from the other elements has the potential to clarify roles and enables the public sector to concentrate on policy and accountability.

³² Submission No. 143.

³³ Submission No. 143.

Governments Are Ultimately Accountable

4.9 While there were a range of divergent views put to the Committee, there was general agreement that, regardless of who actually delivers the service, the contracting agency should retain ultimate responsibility for the impacts of the services that are delivered.

4.10 The New South Wales Government expressed the view that:

"Regardless of whether an activity is performed by an agency itself or by a contractor on the agency's behalf, accountability for the actual delivery of the service, the standards of performance and the overall costs remain with the agency and the Government. Accountability in those respects cannot be delegated.

The contractor's responsibilities must be set out in the contract documentation but it is the agency's responsibility to ensure compliance by contractors and also to ensure that appropriate procedures are in place for receiving and considering grievances arising from the contracted activity".³⁴

4.11 The Department of Veterans' Affairs supported this view:

"...the agency should remain directly accountable in a public sense and not the provider. Although the Minister's responsibility does not extend to the day to day management of the outsourced function, ultimately, the Minister through their portfolio department, is accountable for the delivery of Government initiatives and the outcomes produced".³⁵

Recommendation

4.12 The Committee recommends that the government agency remains totally accountable for the efficient and effective delivery of services, irrespective of whether welfare services are provided to clients by government agencies or through a contractor.

³⁴ New South Wales Government, *Service Competition Guidelines: New South Wales 1997*, Sydney: Council on the Cost of Government, 1997: 9.

³⁵ Submission No. 144, p.166.

Impacts on Service Quality

Concept of Quality

4.13 Quality means different things to different people. For some witnesses in this Inquiry, a quality service was one which adequately addressed the needs of clients. For others, the term quality service was synonymous with flexibility, innovativeness, responsiveness and fairness.

Measuring the Impacts on Quality

4.14 Many aspects of community service provision are intangible and do not readily lend themselves to quantitative performance measures. For this reason, it is often difficult to accurately assess the impact of contracting out on the standards of quality of welfare services. These problems are exacerbated by the difficulties involved in measuring the impacts of policy, the adequacy of current performance information and changes in community perceptions about what is an acceptable levels of quality which are difficult to assess. Some of these difficulties were recognised by the Industry Commission in its examination of contracting out and competitive tendering in the public sector:

"Attempting to assess the impact of contracting out on quality is not easy because for several reasons, including:

- *where quality changes, it is often unclear whether the contractor was not adhering to specifications or whether a policy decision had been made to use CTC as a mechanism to change quality;*
- *it is at times difficult to isolate the effects on service quality attributable to CTC from concurrent reforms, such as local government amalgamations;*
- *the frequent absence of performance evaluation mechanisms prior to introducing CTC makes before and after quality comparisons difficult; and*
- *the quality of service may not have changed as a result of contracting, but the basis on which quality is judged may not have changed. What was an acceptable level of service in the past, may no longer be so".*³⁶

³⁶ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies, Draft Report*, Canberra: AGPS, 1995: 100-101.

Evidence Presented to the Inquiry

4.15 In examining the impacts of contracting out and competitive tendering on quality of service, a large amount of anecdotal evidence was presented to the Committee. This evidence indicated a range of divergent views about the impacts of contracting out and competitive tendering on the quality of service.

4.16 A common argument was that contracting out can improve the quality of service delivery because it enables a better understanding of quality requirements through improved specification of responsibilities and required outcomes, and greater flexibility for clients in choosing service providers that best suit their needs.

4.17 These aspects were stressed by the Commonwealth Department of Health and Family Services:

"Where services are delivered solely by the public sector, there is a tendency to provide a 'one-size-fits-all' service regardless of the needs of specific communities or individuals. This approach tends to focus on such things as organisational guidelines and process monitoring rather than on the purpose of the service, that is, the needs of clients.

Contracting can provide greater flexibility in terms of the scale of operations, employment arrangements, the mix of industry players involved, the service delivery approaches including the quantity and mix of services supplied, the range of expertise, geographic spread, and the time frame of operation.

Contracted services can also be more innovative and responsive when they are designed for known clients and with a thorough knowledge of other services in the district".³⁷

4.18 However, other witnesses considered that the quality of service provision had suffered as a consequence of contracting out and competitive tendering. It was argued that the excessive costs associated with tender preparation had forced many small organisations to divert resources away from the provision of services.

4.19 In this regard, Catholic Social Services of Victoria reported that increased overhead and administrative costs associated with the preparation and submission of tender documents had substantially added to the cost of service provision and reduced their ability to meet client needs:

"The amount of time, expense and effort required in complying to the tendering process as well as monitoring and accounting for specific programs also leads to a reduction in the ability of agencies to respond to community needs. For smaller agencies these requirements represent a significant strain and divert resources that would otherwise be used in responding to community needs".³⁸

³⁷ Submission No. 143, p.136.

³⁸ Submission No. 46, p.1032.

Continuity of Service Delivery

4.20 Another aspect of quality potentially threatened by competitive tendering referred to in evidence was that of continuity of service. There was concern that the lack of continuity of service brought about by contracts changing hands may result in major disruptions to service arrangements and clients. The following examples illustrate the general concerns of witnesses on this issue.

4.21 The Department of Health and Family Services submitted:

"Given the nature of the clients involved and the outcomes sought, longer-term relationships are desirable between the purchaser and the providers of family and community services. For example, young people at risk of suicide need the stability of an ongoing case manager and people with disabilities need continuity of support services if they are to participate in the workforce."³⁹

4.22 Community Services Australia, in respect of residential services for the aged, commented:

"Because of the nature of our services, the Board relies on the provision of a very stable and reliable operation to ensure the wellbeing of its residents. Any form of competitive tendering where at the end of a period a totally new set of personnel and operational practices is implemented, would be totally foreign and unsettling to our clients and unsettling to the Board".⁴⁰

4.23 Lake Macquarie and Newcastle HACC Forum argued:

"Service providers - the organisation and the personnel - will inevitably change with closure of contracts. The HACC client group are vulnerable and it is not in their best interest to lose continuity of care and established relationships with service providers. The way in which services are delivered to frail aged people and people with disabilities is vitally important to their wellbeing".⁴¹

³⁹ Submission No. 143, p.137.

⁴⁰ Submission No. 125, p.55.

⁴¹ Submission No. 25, p.457.

Information Asymmetry

4.24 Other witnesses felt that the move toward increased contracting out could lead to a situation in which purchasing agencies know less about the adequacy and outcomes of the service than the provider.

4.25 The Commonwealth Department of Health and Family Services were among those who warned that many government agencies have no experience in contracting out work and, as a consequence, lack the skills and expertise to effectively manage contracting out of welfare services:

"Ensuring benefits (particularly that savings more than offset overheads) depends on the skill with which contracting out is managed; this assumes skills not all government departments possess and costs may be involved to develop and maintain them".⁴²

4.26 This view was supported by the Melbourne Citymission, who argued:

"...that the level of expertise which seems to be available in the various bureaucracies has diminished to such an extent that they [service providers] no longer actually know what they are tendering for. Consultation does not take place. Documentations turn up, you go through them and you want to ask questions; but you are not allowed to ask questions because this is a breach of the tender process, even questions of clarification".⁴³

4.27 A similar concern was expressed by Anglicare South Australia:

"In response to our questions, we continually asked the department: what is it that you are looking for; could you please define? The answer that I personally consistently was given was, 'Something new'. That is a very vague answer when you are asking, 'What is it you are looking for?' We say, 'This is what we are doing now. What are you now looking for?' 'Something new'. We had the sense that there was this desire that there was this desire for a new toy".⁴⁴

4.28 The Committee has strong concerns that the evidence in relation to the impact of contracting out on service quality is inconclusive.

⁴² Submission No. 143, p.102.

⁴³ Transcript of Evidence, p.FCA47.

⁴⁴ Transcript of Evidence, p.FCA563.

Recommendation

4.29 The Committee recommends the carrying out of detailed research into the impacts of contracting out and competitive tendering on the quality of welfare services, including international experience and research.

4.30 The Committee recommends that government agencies with responsibility for welfare service delivery should fund independent empirical studies into the impacts of contracting out on service quality. This research should seek the input of contracting agencies, service providers, consumer representatives and other relevant stakeholders.

Impacts on the Cost of Services

4.31 There is no shortage of published studies which have examined the cost-effectiveness of contracting out and competitive tendering. The first detailed study into the cost impacts of contracting out was Domberger's⁴⁵ study of local government refuse collection in the United Kingdom. This study estimated that contracting out had achieved cost savings as high as 20 percent.

4.32 Although the reported saving of 20 percent has been widely quoted by advocates of contracting out in Australia, the empirical evidence is conflicting. Furthermore, there are no detailed empirical studies which have specifically looked at the impacts of contracting out of welfare services in Australia. There have been a number of studies reporting significant cost savings in State and Local Government services, in particular, road maintenance, cleaning and refuse collection at the level of State and Local Government level.⁴⁶ However, many studies claiming significant savings without loss of quality have been criticised as simplistic for not taking into account a number of key variables.⁴⁷ Ranald,⁴⁸ for example, has argued that studies which allege significant savings from contracting out and competitive tendering often exclude the costs of redundancies and the cost of the tendering process.

⁴⁵ Domberger, S et al (1986) 'Competitive Tendering and Efficiency: The Case of Refuse Collection', *Fiscal Studies*, 7.

⁴⁶ Dixon, R and Jensen, P (1995) Revolutionising road maintenance: a case study, in Domberger, S and Hall, C (eds.), *The Contracting Casebook: Competitive Tendering in Action*, University of Sydney.

Jensen, P and Liebenberg, B (1995) Government cleaning service: Reforming Business in New South Wales', in Domberger, S and Hall, C (eds.), *The Contracting Casebook: Competitive Tendering in Action*, University of Sydney.

Farago, S., Domberger, S., Hall, C. and Li, E (1994) *Competitive Tendering and Contracting in the NSW Public Sector: The 1994 Survey Findings*, Graduate School of Business, University of Sydney, December.

⁴⁷ Evatt Research Centre, *Breach of Contract - Privatisation and the Management of Australian Local Government*, Sydney: Pluto Press, 1990: 9.

⁴⁸ Ranald, P, 'Australia's Contracting Public services: Critical Views of Contracting Out by the Public Sector', Public Sector Research Centre Collected Papers No. 2, The University of New South Wales, 1995: 87.

4.33 As Hodge has argued:

"...there may well be greater monitoring and supervision costs associated with contracting out. Rarely are such costs measured, however and estimates of the costs of monitoring contract specifications and contract completion vary...

Estimates of the cost of initially developing [contract] specifications, preparing the contract and organising for contracting processes would also typically be in the vicinity of 2% of the total contract amount. Some proportion of the costs of developing and monitoring contracts is likely to be needed even if the provision of services is not subject to tendering. This amount has not been specified in general, however. The lack of this type of information puts in doubt the accuracy of service delivery cost savings estimates under contracting".⁴⁹

Cost Impacts on Governments

4.34 While there was little hard evidence presented to the Committee to substantiate claims of cost impacts, there was a large volume of anecdotal material. Numerous witnesses criticised the published studies claiming significant savings, arguing that contracting out had the potential to substantially increase the cost of service delivery. A number of government agencies expressed concern at the increased costs associated with contracting out and competitive tendering, including higher overhead, administration and transaction costs.

4.35 In this regard, the Department of Health and Family Services remarked:

"Even where there is a potentially competitive market, it should not be assumed that there will always be savings, or that savings will be maintained over time. Contracting out, particularly through competitive tendering, imposes overheads including transaction costs which can be considerable when large numbers of contracts are involved, as is the case for HFS".⁵⁰

⁴⁹ Hodge, G Contracting Out Government Services: A Review of International Evidence, Melbourne: Montech Pty Ltd, 1996: 28.

⁵⁰ Submission No. 143, p.101-102.

4.36 There was also concern that many agencies currently have either limited or no previous experience in contract management and, as such, face substantial costs in training staff to effectively manage tender processes and service contracts.

4.37 As the Commonwealth Department of Health and Family Services pointed out:

"Ensuring benefits (particularly that savings more than offset overheads) depends on the skill with which contracting out is managed; this assumes skills not all government departments possess and costs may be involved to develop and maintain them".⁵¹

4.38 However, a number of Commonwealth Government agencies argued that contracting out and competitive tendering had the potential to reduce costs by:

- market competition forcing down the costs to governments; and
- developing strategic partnerships and alliances, including attracting capital and share risks, and identifying opportunities for micro-economic reform.

4.39 The Department of Health and Family Services held this view, and provided the following examples of where cost savings had been achieved through contracting out and competitive tendering:

"Opening the provision of child care services to the private sector, for example, has resulted in immediate benefits to the Commonwealth because of the diminished requirement for capital investment. Child care service provision has also benefited from the continued supply of centre based long day care places, and clients from increased choice. At the same time, removal of operational subsidy from the community based sector means that affordability for families accessing both community and private sector long day care will be equalised. The costs to government of accessing both the community and private sector services will be the same.

Savings are also expected from reducing the number of departmental employees following the corporatisation of services directly delivered by HFS. Around 1600 CRS staff will transfer to the new company from mid-1998 and there will be an associated reduction of around 75 corporate support staff in the Department".⁵²

4.40 The Department of Veterans' Affairs also considered that there are financial benefits in contracting out and cited its recent divestment of the former Repatriation General Hospitals and the contracting out of certain services by the Vietnam Veterans' Counselling Service, as examples of where the Department had achieved significant benefits for the Department through streamlining health services administration, improved utilisation of hospital

⁵¹ Submission No. 143, p.102.

⁵² Submission No. 143, p.139.

infrastructure, and greater organisational efficiencies through better use of Commonwealth health professionals.

4.41 The Committee reiterates that these claimed benefits remain to be substantiated.

Cost Impacts on Service Providers

4.42 The evidence suggested that the cost impacts of increased contracting out would not be restricted to contracting agencies, but would extend to service providers. Many non-government organisations were critical at what they saw as a lack of contract management expertise within contracting agencies. This had led to inefficient tender and contract management processes which had imposed excessive financial demands on service providers.

4.43 Catholic Social Services of Victoria reported that increased overhead and administrative costs associated with the preparation and submission of tender documents had substantially added to the cost of provision and reduced their ability to compete for contracts:

"The amount of time, expense and effort required in complying to the tendering process as well as monitoring and accounting for specific programs also leads to a reduction in the ability of agencies to respond to community needs. For smaller agencies these requirements represent a significant strain and divert resources that would otherwise be used in responding to community needs".⁵³

4.44 These sentiments were echoed by the Melbourne Citymission:

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

⁵³ Submission No. 46, p.1032.

On a number of occasions this agency has tendered for programs, then to be told on the eve of when the successful tender was to be advised, that no decision could be made and the program is to be retendered the next day. New tender documents have included specific aspects of our response to the original tender. The cost to retender is substantial, the impact on staff significant and the uncertainty facing clients should not be underestimated".⁵⁴

4.45 The extended delays in finalising contracts and the associated cost burden this places on service providers was of particular concern to many organisations.

4.46 The Melbourne Citymission submitted:

"I first met the department in January this year and we got a decision two weeks ago. We won the tender, but we tendered 10 months before. There are also alcohol and drug programs in the western suburbs of Melbourne and child protection programs. There are numerous examples, particularly in this State, where the tender process has been significantly delayed. In the area of offers for housing, the transitional housing programs have been delayed".⁵⁵

4.47 The Adelaide Central Mission supported this view:

"There are strict timetables for tenderers but not so for the government at times. We have to get our stuff in by a set date. Often, when you try to hear back, there are enormous delays. Often, the delays run into months and then you are told, 'You are the successful tenderer, but, by the way, we have to get it up by next week, because we need the money spent in this budget round', which indicates that there are a whole lot of inefficiencies. The cost of tendering is a cost you have to bear on top of the tender, so even if you get the tender, you cannot claim back your costs. We are a large organisation. We have a number of independent income generation processes, but, for us, that is expensive. For a smaller agency that is absolutely stretched to the hilt at the moment, I do not know how they are coping".⁵⁶

⁵⁴ Submission No. 10, p. 989-990.

⁵⁵ Transcript of Evidence, p.FCA48.

⁵⁶ Transcript of Evidence, p.FCA566-567.

Cost Impacts on Consumers

4.48 With regard to consumers, the Committee also received evidence to indicate that increased contracting out had the potential to directly raise costs for consumers.

4.49 This was well illustrated in the case of Meals on Wheels Association of Tasmania, where compulsory competitive tendering had resulted in an increase in the price of meals for consumers. The Association claimed that:

"We were asked to let tenders for the provision of meals here two years ago. The government hospitals had to tender for the supply of meals in exactly the same way as commercial providers of meals. The end result was no result. We were bound by the funding that we received through the Home and Community Care Program. We did not have the money to be able to take on a commercial firm, even though the meal might have involved greatly improved quality, a bigger range or more choice et cetera. We were bound by the funding we received. The only alternative was to put up the price to the recipients considerably.

At some expense we went through the whole tendering process and let adverts. A number of commercial sources put in tenders and were very real contenders, if you like, for the supply of our meals. In the end, it was a nil result. We were still exactly the same as we were the year before when we were getting our meals from government hospitals or some nursing homes in Tasmania".⁵⁷

4.50 Other witnesses argued that the increased overhead and administrative costs associated with the preparation and submission of tender documents had substantially added to the cost of providing services and reduced their ability to meet client needs.

4.51 Catholic Social Services of Victoria summed up the general view in this regard:

"The amount of time, expense and effort required in complying to the tendering process as well as monitoring and accounting for specific programs also leads to a reduction in the ability of agencies to respond to community needs. For smaller agencies these requirements represent a significant strain and divert resources that would otherwise be used in responding to community needs".⁵⁸

4.52 On the evidence available to this Inquiry, the Committee is unable to make a definitive judgement as to the cost impacts of increased contracting out and competitive tendering. There is a clear need for detailed research into the cost impacts of contracting out and competitive tendering on welfare service delivery.

Recommendation

⁵⁷ Transcript of Evidence, p.FCA478.

⁵⁸ Submission No. 46, p.1032.

4.53 The Committee recommends that government agencies with responsibility for the delivery of welfare services should fund independent empirical studies into the cost impacts of contracting out and competitive tendering. This research should reflect the input of contracting agencies, service providers, consumer representatives and other relevant stakeholders.

Sector Impacts

Structural Impacts

4.54 While the evidence presented to this Inquiry suggests that contracting out and competitive tendering can have significant implications for accountability, service quality and the cost of services, contracting out and competitive tendering may also have far reaching structural impacts on the welfare services sector.

4.55 A central issue raised in this Inquiry was the effect of competitive tendering on the structure of the welfare services sector. Many witnesses expressed the concern that competitive tendering would threaten the future viability of small providers. A common criticism was that small service providers with limited resources and capital are unlikely to be able to compete successfully for contracts against the larger, better resourced organisations, and that this would ultimately result in a reduction in services for disadvantaged groups who currently rely on small organisations to meet the specialist support needs of rural and remote communities.

4.56 The Local Government Association of Queensland expressed this view:

"Due to economies of scale, it is feared that larger monopolies will dominate welfare service provision at the expense of smaller operations which are able to provide choice and flexibility, as well as detrimentally impacting upon the individuals in receipt of the services".⁵⁹

4.57 Numerous other witnesses supported this view, including the Alzheimer's Association of Victoria:

"The smaller highly specialised NGO providers may be squeezed out through tendering processes. Larger providers may take a strategic approach of tendering at a low cost, knowing they may bear a loss in the first year or two and subsequently, when their competitors are reduced or no longer in the field, then demand a high price".⁶⁰

4.58 The Salvation Army stated:

"By their very nature, tender bids require time, resources and expertise. The larger organisations are able to devote this time, resources and expertise, the smaller agencies are not. Therefore

⁵⁹ Submission No. 111. p.1361.

⁶⁰ Submission No. 18, p.2-3.

there will be the inevitable disenfranchisement of small, unique and valuable services able to offer the type of service required by a smaller local community in a way that a large organisation would find difficult".⁶¹

4.59 The Family Resource and Network Support Inc submitted:

"The competitive tender process will benefit the larger community organisations who have more resources, specialist tender writers and more influence. This does not necessarily result in a better service to consumers. Many smaller organisations are managed by the consumers themselves, such as FRANS, and offer a range of options for consumers on a grass roots level. Competitive tendering would result in the loss of these smaller organisations and remove many choices for consumers".⁶²

Strategic Partnerships

4.60 However, other witnesses argued that the outcomes for smaller service providers have not all been negative. There was a view that competitive tendering had led many smaller organisations to reassess their role in service delivery and to focus their efforts more strategically. It was also claimed that many smaller organisations had remained competitive by combining resources and forming strategic partnerships.

4.61 Several larger non-government service providers took this position, arguing that increased contracting out was a positive force for the sector which would encourage strategic partnerships between large and small service providers which would ultimately provide improved services to users.

4.62 The Smith Family expressed this view:

"...in some instances the unique nature of welfare service needs requires a more collaborative, rather than competitive approach between agencies. For example, in the case of remote communities, the expertise and advantage of smaller local organisations could be sub-contracted under the auspices of the larger, better resourced agencies. This would allow these smaller organisations to maintain their specialised services while utilising the benefits of a larger organisation's infrastructure for aspects such as quality control, data collection and information services".⁶³

4.63 The Local Government Association of Queensland also saw potential for developing strategic partnerships and resource sharing arrangements between smaller organisations, suggesting:

⁶¹ Submission No. 87, p233.

⁶² Submission No. 91, p.670.

⁶³ Submission No. 34, p.205.

"...there may be the opportunity for smaller organisations to collaborate, share management, physical infrastructure etc; however this would require Government cross program funding, planning and responses to be much more flexible than current approaches".⁶⁴

Sector Reform

4.64 The issue of sector reform was also canvassed as part of this Inquiry. Several government agencies suggested that competitive tendering was an important mechanism for promoting sector reform as well as increasing responsibility for quality by introducing some form of market-based discipline and elements of competition.

4.65 The Commonwealth Department of Health and Family Services submitted:

"HFS's decision to corporatise CRS and AHS will act as an incentive to both micro-economic reform and industry development. Following full corporatisation in 1998-99, the network of CRS units will then compete on the open market with private sector providers. While at present only 10% of hearing services are delivered by private sector entities through service contracts with the Commonwealth, this proportion is expected to increase with the introduction of a voucher system from 1 November 1997 which will enable clients to choose between AHS and accredited non-government sector providers".⁶⁵

4.66 A number of private for-profit providers also viewed competitive tendering as an important instrument for promoting sector reform, in particular, the removal of what they regarded as unfair barriers which have traditionally excluded private organisations from competing for government contracts.

4.67 This view was expressed by Bromilow Home Support Services:

"Apart from the residential aged care sector, private companies have limited opportunities to work in partnership with government to make best use of the funding that is available for welfare services. HACC funding, for example, is still restricted to 'not for profit' organisations. 'Preferred provider status' (for services such as in-home respite care funded through the Department of Veterans' affairs) is largely limited to the traditional church affiliated welfare service providers. Current government policy in these program areas is inconsistent with the longstanding government policy of allowing private 'for profit' proprietors to operate government funded nursing homes. Indeed in recognition of the significant contribution made by the 'for profit' sector in the nursing home area, government policy was introduced some 8 years ago to allow the 'for profit' sector to receive government approvals and funding to operate Frail Aged Hostels".⁶⁶

⁶⁴ Submission No.111, p.1361.

⁶⁵ Submission No. 143, p.144.

⁶⁶ Submission No. 23, p.1196.

Sectoral Relationships

4.68 Regarding the impact of competitive tendering on sectoral relationships, there was general agreement that effective welfare provision cannot be achieved without co-operation between governments, service providers and consumers.

4.69 At the same time, the evidence suggested that there is widespread concern in the community sector that the implementation of competitive tendering would result in an environment focused less on co-operation and mutual goals and more on reducing costs and outbidding other service providers.

Purchaser-Provider Relationships

4.70 A number of witnesses stated that competitive tendering had the potential to undermine effective working relationships between contracting agencies and non-government service deliverers.

4.71 The following comments by Anglicare South Australia summed up the view of many organisations that competitive tendering had undermined hitherto effective working relationships between purchasing agencies and providers:

"I have been in this state now 10 years - I came here from New South Wales - and there was a very combative relationship between a lot of the agencies in my experience in New South Wales. I was quite moved to discover a much more collaborative environment in this state. I have seen that eroded over the last few years. Under the grants system - I am not saying there were not problems with it - there was a much different approach. People wrote letters of support to one another, there was greater collaboration... We are not going to reinvent the wheel; you are doing that and we will support you doing that. Under competitive tendering, what has happened is that government or the bureaucrats have actually started to bring in notions of competition. You cannot talk to one another. This is seen as collusion; this is seen as a ring; you cannot agree not to do this and someone else to do that. As well as the reduction in funds, different attitudes have been injected from outside the sector into the process that worked against people starting to think about working collaboratively as well. I have certainly experienced and seen an erosion of collaboration".⁶⁷

Inter-agency Relationships

4.72 The Inquiry also found that there is widespread concern within the welfare sector about the potential impacts of competitive tendering on the cooperative relationships which have traditionally existed between community sector organisations and which provide the basis of integrated service provision in the non-government welfare sector.

⁶⁷ Transcript of Evidence, p.FCA573.

4.73 The following remarks are indicative of the concerns put to the Inquiry by community sector organisations regarding the impact of competitive tendering on inter-agency relationships.

4.74 The Australian Council of Social Service commented:

"Increased use of tendering is likely to lead to tensions and divisions within the sector, and act against cooperation and collaboration necessary in achieving positive consumer and community outcomes. It would be ironic to exacerbate these problems through unnecessary use of tendering, when so much of the reform agenda at State and national level is directed towards achieving better coordination and integration between services".⁶⁸

4.75 The NSW Health and Community Coordination Committee reported:

"Competitive tendering will erode the current climate of cooperation and partnership as service providers are forced to compete for limited funding. Service providers currently work in a climate of cooperation and partnership to identify areas of need and to establish the best practice in meeting those needs. Collaboration between services informs the process of service development. It ensures that areas of greatest community need are identified and prioritised".⁶⁹

4.76 Melbourne Citymission stated:

"There is also the issue of goodwill, which is very significant. I will give you an example. Recently I received a request from Ecumenical Housing, which is a major provider of not-for-profit housing on behalf of the churches in this community. The request was: would I provide them with a set of protocols for the way in which we operate our emergency housing? In the past there would have been no question; I would have said, 'Yes, this is information in the public interest', and we have provided it. This time I had to stop and say, 'Hang on, if I provide you with this information, this will be used by a competitor against me in winning a successful tender'. I use that as an example to illustrate how the competitive tendering process has in fact turned agencies against each other.

Where in the past we were prepared to share knowledge, share goodwill and participate in all sorts of ways, we now find ourselves having to say, 'Why should I provide you with that information and that skill, which my agency has developed, so that you can use it in order to compete against me in relation to the particular services?' Costs were one of the ways in which we have done that in the past - we have shared between agencies what it cost to provide this service

⁶⁸ Submission No. 115, p.271.

⁶⁹ Submission No. 72, p.589.

or that service. That information is now commercially sensitive under the competitive tendering process, and I think that is a pity".⁷⁰

4.77 Social workers in Toowoomba, Queensland argued:

"...competitive tendering may be divisive because organisations will be set against each other in competing for funds. At present, a valued characteristic of community organisations is their ability to work cooperatively, sharing resources and knowledge. This is for two reasons - the value base of the community sector which involves working for the common good, but also, because insufficient funding has necessitated pooling resources to make the most of what is available. If survival is at stake in a competitive tendering process there will be an incentive to play the cards much closer to one's chest. The growth of knowledge and skills in community sector development depends on the sharing of knowledge and the transfer of skills - the phrase 'knowledge shared is knowledge gained' is often used. Organisations typically share knowledge about funding sources, policy and procedure manuals, statistical and demographic information gathered for planning purposes, solutions to difficult problems. This co-operative approach is one of the great strengths of the community sector".⁷¹

Employment Impacts

4.78 The impact of contracting out and competitive tendering on employees and their wages and conditions was a major concern to many organisations consulted during the Inquiry. While very few witnesses were able to point to specific examples, the anecdotal evidence indicated that there had been instances where savings achieved through contracting out and competitive tendering had been at the expense of job security, wages and conditions.

4.79 Aged Care Queensland Incorporated argued:

"Competitive tendering can in its simplest form engender increases in productivity arising from a reduction in wages and conditions as service providers involved in tendering can fine tune their labour needs such as through the use of casuals as a cost cutting measure. This can occur when permanent employees are replaced by short term casual or temporary staff. Under a competitive tendering system, organisations which are successful in gaining tenders are often under no obligation to employ existing employees. rather, such organisations must be capable of accessing suitably skilled labour as necessary on whatever terms allowed by the applicable awards and tendering requirements".⁷²

⁷⁰ Transcript of Evidence, p.FCA45.

⁷¹ Submission No. 105, p.1346.

⁷² Submission No. 44, p.1257.

4.80 Some organisations felt that increased competitive tendering would lead to contracts changing hands more frequently, and that this would erode the security of employment of persons employed in the sector and make it difficult for community organisations to retain qualified staff.

4.81 The Salvation Army was one organisation which expressed this view:

"Competitive tendering would, of course, have dangerous consequences for the staff of NGO community welfare organisations. Currently, staff are employed over long periods of time. They build up experience and develop unique knowledge and expertise. With Government tenders on an annual basis, staff can only be placed on relatively short term contracts. Many people are not prepared to work with this insecurity".⁷³

Impacts on Volunteers

4.82 One group potentially most affected by the move to competitive tendering is that of volunteers. In Australia, volunteers and voluntary agencies have long had a prominent role in the delivery of welfare services, by providing a cost-effective source of labour in areas of service delivery where government funding is inadequate to meet consumer needs (Evatt Research Centre, 1990: 60). In many areas of welfare service delivery volunteers, rather than paid employees, are the key human resource. It has been estimated that 10 percent of the population 15 years and over contribute an average of 74 hours each year to providing social welfare services to the community. This is equivalent to around 50,000 persons contributing 40 unpaid hours per week each year, and represents an enormous saving to governments and communities.⁷⁴

4.83 In view of their importance in the provision of welfare services, it was not surprising that many witnesses stressed the contribution of volunteers to their organisations. There was general agreement that, in moving toward increased competitive tendering, governments need to ensure that volunteers, who freely contribute their services without payment, are not discouraged from participating in the delivery of welfare services as this would inevitably drive up the cost of service provision.

4.84 The following comments are indicative of the range of views expressed in respect of volunteers.

4.85 The Meals on Wheels Association of South Australia noted:

"There are no paid Meals on Wheels supervisors in South Australia, yet each is individually responsible for one of the 40 meal outlets around the State. They are no less a volunteer than anyone else, receiving only basic out of pocket expenses to cover telephone, correspondence costs, etc. These people are literally the heartbeat of the organisation's activity, ensuring some 80% of our total meal

⁷³ Submission No. 87, p.235.

⁷⁴ Lyons, M (1994) *Australia's Charitable Organisations*, Consultant's report for the Industry Commission.

*requirements are available from our own kitchens on a daily basis. Then too, volunteers who assist in the cooking and delivering of meals are our lifeblood"*⁷⁵

4.86 The Central Coast HACC Forum reported:

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

4.87 The Commonwealth Department of Health and Family Services submitted:

*"The introduction of competitive neutrality and competitive tendering presents at this time some risks for the community welfare sector. The more profit-oriented services become, the less attractive they may be to volunteers and donors who are willing to support not-for-profit organisations, or a specific cause, but have reservations about contributing to profit that is not ploughed back into services".*⁷⁷

⁷⁵ Submission No. 3, p.887

⁷⁶ Submission No. 45, p.504.

⁷⁷ Submission No. 143, p.102.

4.88 The Port Adelaide Central Mission observed:

"...volunteers offer their service because they align with certain values or beliefs of the organisation. If a service is being tendered out to one organisation that has a pool of volunteers and then that service re-tenders, they do not get and it goes to another organisation, it does not mean that volunteers who were working with that service are going to transfer to this other organisation".⁷⁸

4.89 The Local Government Association of Queensland commented:

"The essential role of volunteers in welfare service provision must not be overlooked in this debate. What is the role of a volunteer in a competitive environment, and why should some donate their time, resources and energy whilst others profit? The withdrawal of volunteerism will significantly impact on cost of service provision. The historical underfunding of the welfare sector has relied on the commitment of individuals to community well-being and reliance on volunteers to meet the shortfalls, as well as accept the legal and moral risks. It is important to consider how the impact of competition will affect concepts of community responsibility and public interest".⁷⁹

4.90 The Committee recognises the important contribution of volunteers in the delivery of welfare services and in enhancing the social welfare of the community in general.

4.91 However, the Committee considers that the evidence in relation to the impacts of contracting out and competitive tendering on volunteerism is inconclusive, and that there is a clear need for detailed research into the impacts of contracting out and competitive tendering on volunteerism.

Recommendation

4.92 The Committee recommends that government agencies with responsibility for delivery of welfare services should fund independent empirical studies into the impacts of contracting out and competitive tendering on volunteerism in the welfare sector.

Regional Impacts

4.93 Numerous submissions questioned the suitability of a competitive model for the delivery of welfare services in small rural and remote communities. Most of the comments raised by witnesses concerned the lack of effective competition in small rural and remote communities.

4.94 The absence of effective competition does not necessarily imply that services are not being delivered efficiently. In fact, many community organisations in rural or remote communities rely on a volunteer ethos.

⁷⁸ Transcript of Evidence, p.FCA571.

⁷⁹ Submission No. 111.p 1361.

4.95 As Denise Lamble, a private citizen of Victoria, argued:

"Each rural area has its own culture. The ability of organisations and workers to respond to the needs of their community is impaired when a large organisation not based in the area, has been the successful tenderer. Communities used to feel ownership of their services. There was a charitable feeling of support. Fundraising and volunteering was often an important way of encouraging community involvement and ownership, as well as assisting the organisation to offer a better quality of service. When the main organisation is centralised, that feeling of ownership and goodwill in smaller rural centres is lost".⁸⁰

Effective Competition

4.96 Successful competitive tendering requires effective competition so that the best provider is chosen. However, calling for tenders does not always guarantee effective competition. Many witnesses highlighted the fact that in some areas of welfare service delivery, the characteristics of the market or the service mean that there will be very few service providers. This raises questions about the suitability of competitive tendering in small remote communities.

4.97 As the Council of the City of Townsville argued:

"Competitive tendering is inappropriate for rural areas where there may be only one service provider. Costs of service delivery in rural and remote areas, or even in regional centres, cannot be compared to capital cities. Local communities should be able to choose local service providers if they wish to do so. Our Home Modifications Service has found that in some cases, it may be necessary to pay building contractors to travel to rural areas to give quotes - commercial contractors will not outlay the cost of travel to a remote job".⁸¹

4.98 The Queensland Department of Families, Youth and Community Care also drew attention to the possibility of an absence of effective competition in some communities:

"The distance makes competitive tendering more difficult and, certainly, some of the issues I have raised earlier are that you may lose some of the positive benefits of regional services in terms of competition. For example, you may have someone who is more competitive to provide the service, yet that person does not know of the community and does not have a relationship with the community. So one of the dilemmas is that often your small community organisations, or your community based organisations, know that

⁸⁰ Submission No. 48, p.1035.

⁸¹ Submission No. 150, p.1401-1402.

community well; they know the people in the community, and have processes set up within the community to respond to identified local needs.

One of the disadvantages is that you may not yet have the critical mass, or the people, who would be able to bid for and get a tender. So one of the difficulties is that, on the one hand, there are some very positive elements, but on the other hand, obviously we are concerned about cost efficiency and effectiveness. I think that one of the challenges for us is to find efficiencies and effectiveness measures in other ways, and there are other ways of doing that besides competitive tendering".⁸²

4.99 A number of organisations from rural and remote locations expressed concern that the lack of effective competition in many of these areas may lead contracting agencies to rely on larger national organisations which lack the necessary local knowledge to meet the needs of small communities.

4.100 The Bribie Island Neighbourhood Centre in Queensland expressed this view:

"In a competitive tendering environment we may be faced with the possibility that a Brisbane based or national organisation successfully tenders to provide family and community services to the Bribie Island area. It is inevitable that under such an arrangement quality of service delivery will suffer due to the lack of local knowledge and relationships such an organisation must inevitably have".⁸³

4.101 The WA Network of Community Based Home Care Services Inc expressed the view that:

"Because the competitive tendering model tends to advantage larger agencies, small community-based agencies, particularly in rural areas, may be less likely to win tenders. For example, when a larger Perth-based agency wins a tender for a service that was previously offered by a small local agency, the consumer in the rural or remote area may be quite angry and distressed. Loss of funding to a local group may result in job losses and the further decline of country towns. For older consumers, this is a particular concern, as their ability to remain in their home and community is often related to the level of family support and the number of young people in the town and in paid work".⁸⁴

4.102 The Tasmanian Government supported this view and stressed the need for governments to consider alternatives to competitive tendering in some circumstances:

⁸² Transcript of Evidence, p.FCA671.

⁸³ Submission No. 147, p.1394.

⁸⁴ Submission No. 116, p.428.

"Tasmania has a relatively small population that is characterised by its dispersal throughout the State, and a relatively high level of unemployment, low income and ageing population. ...Because of these demographic characteristics, there is not always a viable market for the provision of community services in Tasmania. The diseconomies in size and scale mitigate against the principles of robust competition. Smaller, locally-based bodies are able to respond to client needs in their areas, but would not be able to provide a deep market for competition. ...As an alternative to widespread competitive tendering of community sector service delivery, the Department of Community and Health Services and the community sector have embarked on a process of demonstrated contestability and improved efficiency, designed to achieve agreed objectives in ways better suited to local conditions".⁸⁵

4.103 The Committee recognises that in many rural and remote communities, there will be a lack of effective competition between service providers, and that competitive tendering may not be an appropriate model by which to achieve effective and efficient service delivery.

4.104 In such cases, contracting agencies will need to consider alternatives to competitive tendering in order to ensure effective delivery of welfare services.

Recommendation

4.105 The Committee recommends that contracting agencies undertake a detailed assessment of the social and economic costs of applying competitive tendering processes in small rural and remote communities. Such assessments should canvass the input of all stakeholders in the communities concerned.

⁸⁵ Submission No. 158, p.1.

CHAPTER FIVE

Adequacy of Current Monitoring of Performance Standards for Services Delivered by the Non-government Sector

Introduction

5.1 Performance monitoring is a central element of service delivery. It is a process by which government agencies supervise a service provider's performance so as to ensure the provider meets predetermined performance standards. The importance of effective performance monitoring has been emphasised by the Industry Commission⁸⁶ particularly where:

- the service delivery is based on ongoing relationships;
- there are difficulties in measuring and specifying the required performance;
- the potential costs of disputes between contracting agencies and service providers are high and;
- the potential costs of disruptions to service are high.

Performance Monitoring in the Welfare Services Sector

5.2 Within the welfare services sector, an extensive range of quality assurance measures have been implemented by Commonwealth Government agencies, State and Local Governments and non-government organisations to ensure that the service provider is faithful to the terms of the service agreement and that clients and the contracting agencies are satisfied with the service being delivered. In the past five years, in particular, there has been an increased recognition at all levels of government and in the non-government sector of the central role performance monitoring can play in facilitating improvements in the range and quality of welfare services.

5.3 At the Commonwealth level, for example, quality assurance measures in program include:

Aged and Community Care

- gazetting of agreed standards for the Home and Community Care (HACC) program as part of the HACC agreements with the States and Territories;
- development of instruments by the Australian Institute of Health and Welfare for measuring performance against HACC standards at the regional, State/Territory and national levels;

⁸⁶ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies, Draft Report*, Canberra: AGPS, 1995: 339.

- development of a new accreditation and quality assurance system for residential care to be managed by an independent aged care standards agency. The agency will be responsible for assessing services against accreditation standards covering management systems, staffing and organisational development; health and personal care; resident lifestyle; and physical environment and safe systems;
- review of the departmental complaints service which investigates and resolves complaints from residents, relatives and service provider staff aimed at identifying ways of improving the service; and
- development of new resident classification system covering the broad range of care needs across the hostel and nursing home sectors.

Disability Services

- planned expansion of the National Information Management System (NIMS) which provides agencies with performance information to relevant agencies.
- new arrangements requiring service providers to be accredited in order for the Commonwealth to purchase case management from them and to report on employment outcomes achieved in order to receive the full case payment in respect of an eligible job seeker;
- review of the current quality assurance system aimed at identifying ways to improve client and government confidence in quality assurance; simplify administration and reduce government involvement in the operation of services; make the system more equitable for application across the whole sector; and make quality more measurable and its assessment more objective; and
- extension of the quality assurance and standards monitoring mechanisms to Commonwealth funded hearing services provided by the non-government sector.

Child Care

- development of the Commonwealth's Quality Improvement and Accreditation System (QIAS) for monitoring performance standards for centre-based long day care based on self-assessment of the centre by its management, staff and parents, as well as peer review by qualified childhood practitioners;
- requirement for all long day care centres to register with the National Childcare Accreditation Council and to make satisfactory progress in the system as a condition of eligibility for Commonwealth childcare assistance to parents; and
- a proposal by the Commonwealth to develop quality assurance systems for Family Day Care and Outside School Hours Care.

Family Services

- development and implementation of service standards for SAAP based on a set of national principles;
- review of current State service standards to ensure that they are consistent with agreed national principles;
- adoption of national practice principles in case management which will be incorporated into revised State service standards;
- development of the SAAP National Data Collection (managed by the Australian Institute of Health and Welfare). This collection is intended to provide nationally consistent co-ordination of information on homeless people and agencies providing services, protection of client privacy and confidentiality, protocols governing collection, dissemination and use of data, and the provision of regular comprehensive reports to the Commonwealth, States/Territories and SAAP agencies to assist planning, monitoring and reporting;
- development of a set of national performance indicators to be used in conjunction with the SAAP National Data Collection; and
- a review of the Emergency Relief program aimed at developing additional requirements for service providers participating in the program, including the establishment of improved client standards and regular data collection.

Sources of Inadequate Performance Monitoring

5.4 While the Committee found that there had been significant improvements all levels of government in terms of the quality assurance measures currently in place for welfare services, approaches to performance monitoring have a number of important limitations. The main limitations are:

- problems with developing meaningful performance indicators for outcomes and outputs;
- uncoordinated approaches to the development of performance standards and quality assurance mechanisms;
- problems relating to accreditation;
- high costs of reporting; and
- limited expertise in performance monitoring.

Problems with Developing Robust Performance Indicators

5.5 The development of performance indicators and their incorporation into service agreements and contracts has proven useful in enabling contract managers to specify the types of services required by the community, measure the performance of service providers and provide a basis for continuous improvement through the use of benchmarking.

5.6 Hall and Rimmer⁸⁷ have defined effective performance indicators as:

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

Defining Outcomes for Welfare Services

5.7 While this definition encapsulates most of the elements of effective performance monitoring, it does not place adequate emphasis on the need to develop outcome-based indicators which are both reliable and acceptable to contracting agencies, service providers and clients alike.

5.8 The Committee found that there was general agreement that in order to properly monitor how successful an organisation is in achieving its service objectives, it is necessary to employ a range of performance measures that focus both on the volume of service being received by clients (outputs), as well as the extent to which the service changes the quality of life of the client (outcomes).

5.9 However, developing reliable and objective indicators that measure actual level of service as well as broad subjective indicators that are capable of measuring client satisfaction and which are acceptable to all stakeholders has proven extremely difficult. This is due to the intangible nature and longer term benefits of many welfare services.

⁸⁷ Hall, C and Rimmer, S, 'Performance monitoring and public sector contracting', *Australian Journal of Public Administration*, 1994,53 (4): 453-61.

5.10 As the Burdekin Community Association argued:

"There have been countless attempts (in this country as well as others) to arrive at a meaningful measure of client focussed outcomes. Output based performance indicators require satisfactory balance between effectiveness, efficiency, appropriateness and cost. This is an impossibility in the field of human services, as it would be in any field where there exists a multitude of external and autonomous stimuli".⁸⁸

5.11 Because of the difficulties associated with developing meaningful indicators of outcomes, contracting agencies have tended to rely on quantitative output measures rather than focusing on outcomes for clients. In the view of many witnesses, this over-reliance on outputs had produced an inadequate approach to monitoring welfare service provision.

5.12 The comments below summarise the concerns expressed by many of the non-government organisations in respect of the use of output-based performance monitoring across the welfare services sector.

5.13 SAAP Regional Network Gippsland submitted:

"The implementation of output based funding places a greater emphasis on the simplistic notion that the government can purchase client support services in the same way a consumer can purchase food at the supermarket. The ability of a service to 'perform' is now measured by output based funding formulas which detail such things as: worker to client ratios, percentage of case managed clients, total number of clients to receive support annually, average duration of support, average annual occupancy, etc.

SAAP services are also monitored by the interpretation of client data they supply to the National Data Collection Agency (NDCA). This is a prime example of the monitoring of performance standards based on output based funding. The formulas of output based funding ie. client to worker ratio, average length of stay, etc, are interpreted by DHS as compliance or 'failure' to meet service plans. Whilst data collection is necessary and often useful, effective data collection is governed by many factors which may ultimately serve to indicate efficiency but not effectiveness, unless of course increased effectiveness is inappropriately defined as more direct service hours to clients for the same (or less) overall funding".⁸⁹

⁸⁸ Submission No.75, p.1285.

⁸⁹ Submission No.26, p.1003.

5.14 The Australian Catholic Social Welfare Commission stated:

"The question of outputs and outcomes needs special attention. Too often the objectives of programs are vaguely defined and hence no evaluation can be done; or too specifically defined that they never encompass all the indefinable quality which service providers are aware of. If objectives are defined too broadly, any activity may be said to contribute to them; if defined too narrowly, they may favour one segment of the organisation against another".⁹⁰

5.15 The Council of the City of Townsville observed:

"Examples of more subtle areas of performance include the place of preventative work. How do we prove or even make the causal connections between a service offered to a family or an individual at a critical time, and the detrimental things that did not happen because this was offered? An example which is easy to understand is the application of a non-slip surface to the bath of an elderly person; how do we measure or prove the number of falls that person did not have because of the preventative work undertaken? How do we count the dollars saved in medical procedures and nursing home care? Other areas of work, for example provision of information, personal and family support, child care and counselling are far more complex. Governments need to maintain their faith in the practice and experience of people in the field and to continue to support preventative work".⁹¹

5.16 The SAAP Regional Network Gippsland submitted:

"Community sector workers have long argued that outputs (quantity) do not necessarily equate to outcomes or quality service provision. Output based funding offers performance measures which monitor tangible commodities. The delivery of human services can be complex, requires varied responses and often hinges on the relationship between the worker and the client at an individual level. Likewise analysis of relationships the agency may have with the broader community and any interaction between the two, requires a separate evaluation process to output monitoring which is ineffective in measuring the 'human element' of service delivery".⁹²

⁹⁰ Submission No. 148, p.185.

⁹¹ Submission No. 150, p.1399.

⁹² Submission No. 26, p.1003.

5.17 The Social Policy Research Group at the University of South Australia stated:

"The provision of welfare services used to be process driven rather than outcome driven. It is acknowledged that as a result, the standards and benchmarks by which welfare service outcomes could be measured were not well specified or applied. A move to the competitive tendering process therefore requires a major review within the welfare agencies to detail the outcomes required. In the provision of human services, consumer satisfaction may relate the aspects of the personal interaction between provider and consumer; genuineness, listening, concern conveyed, and even the similarity of values. These are difficult qualities to specify in order that they be measured in outcome terms. A successful change to outcome focused welfare service provision, in which the nuances of relationship between provider and consumer are not lost and the quality of the service therefore, is a bigger task than for the provision of purely physical services".⁹³

5.18 The Melbourne Citymission noted:

"The tender documents fail to understand the complexity of human need, particularly in the area of homelessness. Our Melbourne Youth Support Service has 12,000 contacts from young people each year in the city of Melbourne. That is not a very good measure of how effective the service is, it simply tells you that there are 12,000 contacts with that service. The more important questions would be: What sort of case work provision can you make? How many young people have returned to their families? Have they got employment opportunities? Have they been able to be returned to school? These are the sorts of qualitative issues which will only address the issues of homelessness if resources are made available.

In the area of alcohol and drug abuse in the western suburbs, the same questions were raised. What do you mean by service delivery? What do you mean by casework? What outcomes do you want? These are questions which I think need significant consultation with the field, and need identification and agreement. It would seem to me that the ideal situation would be that whatever government wished to tender for, they would call together those who provide the services and who have expertise and together draw up tender documents which would reflect what sort of service needed to be delivered, and then go to tender. Everyone would then have equal opportunity. They would also know what was being asked for and would not be stabbing in the dark".⁹⁴

Uncoordinated Development of Performance Standards and Quality Assurance

⁹³ Submission No. 63, p.909-910.

⁹⁴ Transcript of Evidence, p.FCA49.

5.19 The evidence suggested that the difficulties involved in arriving at meaningful performance indicators for outcomes has resulted in an uncoordinated approach to monitoring, based on the use of a multiple performance standards and quality assurance mechanisms across the welfare sector.

5.20 As suggested by the Churches Community Service Forum of Queensland:

*"The Forum is concerned with the multiplicity of standards being developed by government bureaucracies and the lack of consistency with general approaches to quality management and improvement. In many areas we are faced with overlapping requirements of government monitoring standards and those which we participate in through self-regulatory activity - such as the Australian Council on Healthcare Standards, Australian Quality Council, the Total Quality Management Standards and areas such as the ISO standards on quality management".*⁹⁵

The Non-Government Sector

5.21 The Committee found that many non-government organisations have developed their own performance indicators and data collection methods as part of an overall quality management system. In many instances, these internal performance monitoring systems are extremely sophisticated, comprising a range of quantitative and qualitative elements.

5.22 The Smith Family Total Quality Management System provides an illustration of the approach to performance monitoring and data collection currently being taken by some of the larger non-government organisations:

Case Study

The Smith Family is a Total Quality Management organisation. Quality Control measures this organisation adopts in relation to welfare services include:

Employment of a full-time Quality Coordinator specifically to measure the standards of its welfare service.

Establishment of Key Performance Indicators (KPIs) for all welfare programs and measurement of service delivery standards against these.

A quality audit process established for this purpose.

Conduct of two annual audits which provide a systematic measurement of:

- 1. Conformance to the standards set for our welfare programs; and*
- 2. Client and staff satisfaction.*

⁹⁵ Submission No. 92, p.1314.

Detailed job descriptions with designated procedural tasks for all welfare staff.

These practices have been instituted by us as a result of considerable evaluation processes. as a business oriented organisation, we recognise that 'product' measurement is a basic requirement for efficiency.

Statistical Data collection

All client contacts, both in-person and telephone consultations, are recorded by welfare workers using client statistical and information sheets. These are entered into a specialised data base (Client Service Management Information System CSMIS) for ongoing statistical analysis and reporting purposes. Other data bases utilised by The Smith Family for these purposes include Microsoft Access and Excel, and SPSS. This information provides us with up-to-date and ongoing information regarding, for example, client numbers, profile and welfare requirements. Monthly data reports are scrutinised at senior management and Board level.

Training

The Smith Family maintains Total Quality Management of its welfare services through ongoing training for its staff and welfare workers. In particular, all volunteer welfare workers are inducted through a comprehensive training course over 12 weeks (part time) which encompasses all aspects of welfare needs and services.

In summary, The Smith Family believes the fact that the delivery of welfare services overall is not governed by any universal 'industry' quality code, means that at present welfare organisations are operating to differing outcome standards of performance. This indicates to us that considerable negotiation is required for the establishment of operating standards which can provide some for of universal and functional service measurement.⁹⁶

5.23 These internal performance monitoring and data collection systems provide a valuable tool for individual organisations. However, from the point of view of monitoring sector performance, these systems, and the information collected by them, are severely limited by the fact that they tend to be based on performance standards developed 'in-house' and reflect the specific needs and focus of the organisation concerned. As such, they are not capable of supporting comparisons of performance between organisations or across the sector as a whole.

⁹⁶ Submission No. 34, p.203-204.

The Government Sector

5.24 It needs to be emphasised that this lack of a coordinated approach to performance measurement and data collection is not restricted to non-government organisations. The Committee is particularly concerned that proprietorial attitudes adopted by some government agencies have resulted in an uncoordinated and inconsistent approach to performance monitoring and data collection between and within government agencies. The following comments illustrate the range of concerns expressed to the Committee:

5.25 Kilmany Family Care, Victoria, commented:

"This agency has seventeen service types, each of which has its own performance standards, indicators, guidelines and policies. Of these, nine are funded from one department. It is ludicrous that standards and monitoring devices are radically different when we are being funded through one department, to the extent that data collection programs developed and provided by the same department are not able to "talk" to each other so that we can gain useful demographic and service data across our agency".⁹⁷

5.26 The Adelaide Central Mission remarked:

"There appears to be no or very little communication between government programs or government agencies, or even programs within departments. For example, financial reports, which are pretty simple, normally cover the same type of issues. We have something like 30 different programs. We have our own very good financial systems and yet we have to do something like 25 different reports just so that we can get the lines in the right order. They will not often accept a report that is slightly outside the form that says this is what you must fill in".⁹⁸

Accreditation Programs

5.27 In addition to setting performance standards, governments have often sought to ensure that services are delivered to a required standard through the use of quality accreditation programs. Under this approach, the setting of performance standards and the process of review against these standards, are undertaken through an accreditation body. While such bodies may be government funded, they are usually independent of government.

⁹⁷ Submission No. 33, p.1020.

⁹⁸ Transcript of Evidence, p.FCA568.

5.28 A number of accreditation programs currently operate within the welfare services sector. Some of these are:

- *Community and Health Accreditation Standards Program (CHASP)*, which requires community health providers to complete a four stage continuous quality improvement process. Completion of the four stage process takes approximately 36 months, at which time accreditation may be sought. Organisations granted CHASP Accreditation automatically receive International Standards Organisation (ISO) Accreditation.
- *National Childcare Quality Improvement and Accreditation System*, which is administered by the National Childcare Accreditation Council. The quality improvement process set down for long day care centres is underpinned by 52 Principles. To be accredited, a centre must comply with each Principle to a required standard. The system has built in incentives for centres which exceed the required standard, for example, extensions of the period between reviews.
- Australian Council of Healthcare Standards Accreditation, which requires hospitals and related services to meet national quality standards in order to gain accreditation with the Australian Council of Healthcare Standards. The program involves both benchmarking and performance measurement.

Costs of Accreditation

5.29 While there is no doubt that accreditation has improved service delivery by assisting organisations to better monitor service outcomes, this benefit will not be realised where the costs of accreditation are prohibitive.

5.30 The high cost of accreditation was emphasised by the Queensland Women's Health Network:

"From my experience of being involved in a service that was [accredited], the first payment to have your first review is \$8,000.

Many of these women's health centres run on very small budgets with huge levels of staffing, and they are covering enormous areas as well, as you would be aware. On a budget of \$260,000 for, let us say, Ipswich Women's Health Centre and Sexual Assault Service, that is a fair whack of money that is being required. And if they are required, even more so through the competitive tendering process, to maintain accreditable standards and also to pay their workers award rates, we have the experience - as we have now in Gympie Women's Health Centre - where they have to shut their doors for one day a week, and they have had to reduce staff because they cannot afford to pay their workers".⁹⁹

5.31 This problem is further compounded as most non-government organisations are not funded to meet accreditation requirements under the terms of their funding agreement:

⁹⁹ Transcript of Evidence, p. FCA809-810.

"Currently as it stands, services that we have contact with are not being funded for accreditation nor are they being funded for the SACS award, which is an award they have to meet inside the community sector. They have to pay their workers to that award. So they are being funded incrementally for that award increase and they are not being funded to be accredited and yet they are required to be accredited".¹⁰⁰

Costs of Reporting

5.32 While the current range of performance standards and quality assurance mechanisms have resulted in inadequate performance monitoring in some areas of service delivery, the cost burden this places on service providers also has the potential to further undermine effective performance monitoring by discouraging agencies from complying with current standards.

5.33 The high cost of current monitoring was emphasised by Anglicare Tasmania:

"...for a large organisation like Anglicare Tasmania the cost, in money and time, of creating and maintaining monitoring systems which can meet the diverse requirements of different departments is considerable. An example is the counselling services operated by Anglicare. The Federal Attorney General's Department funds some services, State Community and Health Services funds others and still more are funded through the Community Support Levy which is administered through the Tasmanian Racing and Gaming Commission. The variety of reporting requirements of the various departments imposes additional costs on community organisations".¹⁰¹

Training in Performance Monitoring

5.34 Effective performance monitoring may also be compromised where the staff of contracting agencies and service delivery organisations lack the expertise to effectively utilise new models for monitoring performance.

¹⁰⁰ Transcript of Evidence, p. FCA809.

¹⁰¹ Submission No. 57, p.374-375.

5.35 As suggested by the Queensland Women's Health Network:

"Community workers are usually caring people who just want to get the job done and provide suitable outcomes that will improve the consumers health/welfare status. The majority of community workers are not trained nor do they receive management training so they are not aware of the benefits of quality control".¹⁰²

5.36 The Queensland Government also supported this view and emphasised the importance of ensuring that staff working in the welfare sector are adequately trained in the use of performance monitoring techniques:

"In the area of performance monitoring, consideration needs to be given to the level of expertise of some non-government providers. Findings of the Culturally Inclusive Service Delivery Project demonstrated that support and monitoring mechanisms for services delivered by the non-government welfare sector may not be adequate in assisting agencies to improve their service performance. The findings also demonstrated that the effectiveness of community organisations in providing accessible services is dependent on the ability of the organisation to plan and monitor performance. This strongly indicated that many community organisations had a need for a high level of support from funding agencies in developing action plans, implementing strategies and monitoring performance. Also as a consequence of the project, it was found that most management committees and funded workers are in need of various levels of support and training in organisational planning, including developing performance indicators linked to clear objectives, and in understanding access and equity issues".¹⁰³

5.37 This problem of inadequate contract management expertise is not restricted to non-government organisations. The evidence suggests that many contracting agencies have little previous experience in contract management and lack the expertise required to develop and implement meaningful performance standards and quality assurance mechanisms. This lack of expertise will require governments to provide funding to provide training to ensure that staff in both contracting agencies and in non-government organisations have sufficient expertise to achieve best practises in performance monitoring.

5.38 The Committee recognises that there are substantial difficulties associated with determining outputs and outcomes for some welfare services. However, the Committee believes that, for the majority of welfare services, meaningful indicators, including both outputs and outcomes, can be developed with input from all relevant stakeholders.

5.39 The Committee acknowledges that the use of multiple performance standards has placed an onerous reporting burden on many non-government organisations. Reporting requirements should be reviewed with a view to varying reporting requirements in accordance with the size or value of the service agreement or contract. That is, the reporting

¹⁰² Submission No. 21, p.1189.

¹⁰³ Submission No. 160, p.16.

should be based on the complexity of the service agreement and the amount of funding provided.

CHAPTER SIX

The Appropriateness of Tendering

Introduction

6.1 Contracting out of government welfare services is a complex process, involving decisions about service specification, contract type, the form of the tender process, mechanisms for evaluating tenders and the mechanisms for disseminating information to tenderers. As highlighted previously in this report, these issues are critical in determining the extent to which contracting out and competitive tendering provide benefits to governments, contractors, clients and the community in general.

6.2 However, many witnesses in this Inquiry expressed the concern that adequate attention had not been given to the **need to establish mechanisms for assessing the suitability and desirability of exposing welfare services to competitive pressures in the first place**. This issue, commonly referred to as contestability, is an important initial step in the contracting out of government services.

6.3 This chapter seeks to clarify the concept of contestability and its importance for contracting out of welfare services. It also discusses the related concept of the continuum of contestability and the way in which this may be used as a tool to assist public sector managers in determining the suitability of contracting out for welfare services.

Concept of Contestability

6.4 The term 'contestability' has been used in a variety of ways throughout this Inquiry.

6.5 The Industry Commission defines contestability as:

*The degree of ease with which firms can enter or leave a market reflecting the level of potential competition. In a contestable market, the threat of new entrants causes the incumbent firms to operate at levels approaching that expected in a competitive market.*¹⁰⁴

6.6 The Health Department of Western Australia views contestability as:

*the introduction of the potential for competition into government sector services which have previously held a monopoly position, or which have operated in a regulated or tied market.*¹⁰⁵

¹⁰⁴ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies, Draft Report*, Canberra: AGPS, 1995: p.ix.

¹⁰⁵ Health Department of Western, Australia *Guidelines for Contestability in Government Sector Health Services*, Perth, 1993: 3.

6.7 These definitions of contestability are based on the assumption that introducing contestability is analogous to allowing outside organisations to compete to provide a service or introducing competitive tendering.

6.8 The Committee does not support this interpretation, but sees contestability as a process by which the *potential* to outsource a service (ie. its contestability) is assessed. This assessment may then be used to assist in determining the suitability or desirability of contracting out a particular service and what form the contracting out should take.

6.9 This view of contestability is consistent with that adopted by the Commonwealth Department of Health and Family Services,¹⁰⁶ in which contestability is seen as a tool for assisting public service managers to determine whether non-government agencies are better able to deliver services currently delivered by the public sector. Thus contestability is a 'measure of the potential for competition', and a contestable activity is one which potentially can be performed by a number of providers, but which may or may not be opened to competition.¹⁰⁷

6.10 In the view of the Commonwealth Department of Health and Family Services, this idea of the '*potential for competition*' was one of the benefits of a contestability process, in that it ensures:

"...people providing the services are always aware that there is a prospect that, if they are not providing them in an efficient or effective manner and are not achieving the outcomes in a way that the government funding them would like them to, there is a possibility that (the government) would look at other options...that will deliver a better outcome and a more effective service".¹⁰⁸

Approaches to Contestability

6.11 Approaches to assessing contestability typically involve:

- assessing the potential contestability of a service;
- deciding whether it is desirable to make a particular service contestable based on a range of considerations, both financial and non-financial; and,
- deciding on the most appropriate way by which to open a service to contestability.

¹⁰⁶ Commonwealth Department of Health and Family Services, *Family and Community Services: When is Competition the Answer?*, HFS Occasional Paper No. 2, Canberra, 1998: p.6-7.

¹⁰⁷ New South Wales Government *Service Competition Guidelines: New South Wales 1997*, Sydney: Council on the Cost of Government, 1997: p.54.

¹⁰⁸ Transcript of Evidence, p.FCA921.

6.12 A number of frameworks have been developed at the State/Territory and Commonwealth level for assessing the contestability of government services.

6.13 At the Commonwealth level, the Department of Finance, has suggested a process comprising the following steps:

- consider alternative approaches to the status quo;
- clarify organisational or program objectives via questions regarding ‘why’, ‘what’ and ‘how’;
- assess internal performance via measures against objectives, evaluations and audits;
- compare performance against potential providers using benchmarking and “promising practices”;
- determine requirements for change; and
- choose the best method of provision or providers.¹⁰⁹

6.14 These steps are implicit in the Department of Finance and Administration’s, *The Performance Improvement Cycle: Guidance for Managers* (1998), which sets out the process for determining how to best perform Commonwealth activities.

6.15 The Western Australian government methodology for subjecting health services to contestability is similar, but also provides that in-house providers have the opportunity to meet an agreed level of performance before considering whether alternative providers exist. This approach is consistent with the Industry Commission inquiry¹¹⁰ which called for a review of programs and activities, with the objective of matching them to the agency’s goals, as an essential first step in assessing the scope for contracting.

6.16 The most difficult aspect of the contestability process is evaluating the contestability and suitability for contestability of an activity. As mentioned previously, these two elements are not the same. An activity may be contestable, that is, alternative providers exist. In the welfare services area, there will be many activities which are potentially contestable. However, some of these activities will be unsuitable for contestability on the grounds of cost or quality considerations or where the community deems the provision of these activities to be the responsibility of governments.

¹⁰⁹ Department of Finance, *Examining Contestability in the APS: Initial Information*, Discussion Paper No. 3, Canberra, 1995: p.6-7.

¹¹⁰ Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, 1995: p.234.

6.17 This distinction was emphasised by the Department of Finance and Administration:

"That question, of whether you should or should not, has to depend on a mix of judgements about what is going to get you the most effective service provision and what is going to be acceptable to the community at the time. One of the examples I like to use is that it is quite conceivable that provision of actual armed forces in the defence service can be put out to tender because we know that mercenaries have been in existence for thousands of years. But whether or not the community would find that acceptable and whether the government would want to do it is a completely different question. So whether you can and whether you should are things that need to be separated".¹¹¹

6.18 As mentioned previously, a variety of contestability frameworks have been developed in recent years. Many of these use the concepts of "core functions" and "non-core functions" as a basis for assessing the potential for contestability of particular activities. However, these categorisations have been found to be problematic in terms of defining "core" and "non-core" functions and applying these definitions to an agency's activities. Furthermore, assessments of what comprised a "core function" varied over time, according to changes in government, policies, technology and social and economic conditions.

6.19 Notwithstanding the difficulties associated with defining "core" and non-core" functions, a number of the public sector agencies which participated in this Inquiry were of the view that considerations of "core" and "non-core" are useful when combined with other detailed criteria.

6.20 In fact, most contestability frameworks developed in recent years use extensive criteria, covering a range of market-specific factors, financial costs and benefits, agency-specific factors and service-specific factors. While these contestability criteria vary according to the size of the organisation and the nature of its activities, they generally require the following questions to be asked:

Market-specific Factors

- Is there an established market of alternative suppliers and what is the level of competition in the market?
- Does a stronger market mean greater contestability?
- Does demand and supply support effective competition and is competition sustainable, especially in remote and rural areas?
- Even where competition is limited, is there evidence that alternative suppliers could provide the service at less real cost to government?

¹¹¹ Transcript of Evidence, p. FCA 978.

- What are the costs of entering into the market?
- Has the Commonwealth already invested in significant infrastructure?

Costs and Benefits

- What are the full costs and benefits of the alternatives?
- Do the benefits outweigh real costs and is there real and measurable potential for better value for money?
- Are the savings sustainable?

Agency-specific Factors

- What are the legal, constitutional or international constraints?
- What are the agency's core statutory responsibilities, for which delegation to non-government agencies is not appropriate, such as duty of care?
- Does the agency have the skills to manage contestability process?
- What are the industrial relations implications?
- How much time is consumed in managing in-house services relative to its importance to agency objectives?
- What is the activity's value in relation to the agency's core role or strategic objectives?
- Would there be a demonstrable loss in changing from the particular ethos or philosophy which is a characteristic of existing providers?

Service-specific Factors

- Are the objectives and characteristics of service consistent with contesting?
- What are the accountability, privacy, security, consumer protection, access and equity considerations? (the less difficulties these considerations provide, the greater the case for contestability);
- Can the service be readily specified in terms of outputs, measuring outputs and performance, quality management?
- Can the activity be separated from other activities, separately costed and accounted for?
- What are the consequences of service interruption, what are the likely costs, and can a provider be replaced without significant interruption to consumers?
- Have all significant risks of service failure been identified and are they unacceptably high?

- Is the activity subject to rapid technological change, making in-house access to current technology difficult and staff replacement costly?
- Is the activity subject to fluctuations in workload and work flow?
- Will a change in service delivery arrangements be acceptable to consumers?
- Are long term relationships between providers and clients desirable?

6.21 The Committee is not satisfied that all these questions have been adequately addressed.

Continuum of Contestability

6.22 The Committee considers that current approaches to assessing contestability and suitability for contracting can be significantly improved by looking at contestability in terms of a continuum. Under this approach, the contestability of an activity can range on the continuum from very low (not suitable) to very high (highly suitable). The placement of an activity on the continuum depends on how it meets designated criteria. For example, an activity with no or few alternative providers, with low incentives to enter the market, low public acceptance to outsourcing and assessed as central to an agency's objectives would be placed at the low end of the continuum. This may be the case in some isolated communities. An activity with many alternative providers, involving a large amount of money, low overheads, not central to an agency's objectives, no public objections etc would be rated at the high end of the continuum.

6.23 The Victorian Department of Health and Family Services has shown that the continuum of contestability approach can assist public sector agencies in making decisions about the suitability of an activity for contracting, how an activity should be funded, as well as best practices in respect of reporting and performance evaluation.

6.24 Under this approach, the case for contestability is dependent on whether there are incentives for new entrants to enter the market. This is then weighed against a range of other service-related and non-service related considerations, such as the service type, the size of the contract, the purchasing power and support needs of consumers, as well as the attitudes of the community in general.

6.25 Contestability should be considered where potential providers have the expertise to meet the tender specifications, the amount of money involved is large, the purchasing power of customers is high, the support needs of customers are low, and there are no regulatory barriers to entry on a 'public interest' ground. Where a service falls on the continuum will determine whether it should be contestable or quarantined from contestability.¹¹²

¹¹² Rogan, L, Johnston, C and Morgan, E, *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 49.

Contestability Continuum for Welfare Services

6.26 There is major concern in the non-government sector that certain unique features of welfare service delivery, such as the predominance of disadvantaged people in the client base or the need for confidentiality in respect of child protection services, make some of these services unsuitable for contracting out and competitive tendering.

6.27 The Committee recognises this concern, and considers that inadequate processes for assessing the suitability of contracting out and competitive tendering may have undesirable outcomes.

6.28 However, the Committee considers that the continuum of contestability approach represents a useful tool in assisting public sector managers to determine the suitability of contracting out and competitive tendering for welfare services. This approach may result in a decision that some services are suitable for competitive tendering and contracting, but only after a comprehensive assessment on a case-by-case basis. As such, the approach represents an effective compromise between those who argue that market approaches are inherently unsuitable for welfare services and the need to achieve cost efficiencies.

6.29 Contestability can be a valuable tool in assisting public sector managers to determine the suitability of government welfare services to be opened to competition. Many of the difficulties currently associated with contracting out and competitive tendering may be negated if an agreed process (between the government and welfare service providers) to test the contestability of services on a case-by-case basis can be implemented. The use of a contestability continuum is a useful tool for determining the contestability and suitability of welfare services for contracting out and competitive tendering.

Recommendation

6.30 The Committee recommends that a contestability continuum for welfare services should be developed by the Department of Health and Family Services, in conjunction with welfare organisations and providers before new welfare services are considered for contracting out.

6.31 The criteria underpinning the contestability continuum should include service related and non-service related factors and be reviewed on a regular basis to take account of changes in organisational objectives and practices, technology and service markets, and that the contestability status of all welfare services be re-assessed at regular intervals.

6.32 Further development of competitive tendering processes should not proceed until such an approach is adopted.

CHAPTER SEVEN

The Role of Government

Introduction

7.1 An important concern of this Inquiry was to establish an appropriate role for government in a competitive environment. In this regard, the Committee found strong agreement that, as the party ultimately responsible for the impacts of services on the community, the government has a central role to play in standards setting and monitoring performance and accountability.

7.2 As emphasised by the Queensland Government:

"...government agencies involved with outsourced services and contracting processes have a crucial role in the ongoing monitoring and standard setting of the services provided by the contracted agency".¹¹³

7.3 The Committee supports this view and has recommended that, irrespective of whether welfare services are provided to clients by government agencies or through a contractor, the government agency remains accountable for the efficient and effective delivery of that service.

7.4 However, it is also clear from the evidence that the success of contracting out of welfare services is heavily dependent on the ability of government agencies to develop standards and monitoring processes which are inclusive of all service stakeholders.

7.5 The Residential Care Rights Service in Melbourne commented:

"It is essential that governments set benchmarks for performance by the providers of contracted out services. Ideally, those benchmarks should be set in consultation with both consumers (and their representatives) and service providers. Consumers especially, should be properly resourced by government so that they can have effective input".¹¹⁴

¹¹³ Submission No. 160, p.23.

¹¹⁴ Submission No. 66, p.1051.

7.6 The Australian Association of Social Workers also argued:

"Government has a major responsibility for managing its funding to social welfare services as efficiently as possible. The AASW strongly believes that government in partnership with consumers and service providers has a vital role to play in critically examining the processes and outcomes of new service delivery arrangements".¹¹⁵

7.7 This view was supported by the Marrickville Council:

"The leadership role of the Commonwealth Government in setting national standards for welfare services is supported in order to ensure consistency, equity and access for consumers, regardless of where they live in Australia. The relationship between the government and the service provider should be a partnership to determine monitoring and accountability requirements".¹¹⁶

7.8 The Committee supports this position, and believes that governments, in partnership with other relevant stakeholders, should immediately examine the key areas of:

- robustness of service agreements;
- efficiency and fairness of current tender processes; and
- effectiveness of ongoing management of service agreements.

Developing Robust Service Agreements

7.9 For many welfare services, the service agreement is the formal mechanism by which to ensure the level of service meets the expectations of the various stakeholders. It is therefore critical that such agreements set out the full range of information likely to be required by the various stakeholders in the service so as to minimise the likelihood of unsatisfactory service outcomes.

7.10 This Inquiry found that current service agreements frequently fail to include key information in service agreements. For example, service agreements often do not provide clear statements covering the objectives of the agreement; the responsibilities of the various parties to the agreement; and the price to be paid for specific outputs and outcomes.

¹¹⁵ Submission No. 124, p.37.

¹¹⁶ Submission No. 101, p.685.

Recommendation

7.11 The Committee recommends that contracting agencies should ensure that service agreements contain explicit statements covering:

- *the purpose of the agreement;*
- *the specific parties to the agreement;*
- *the specific duration of the agreement;*
- *the price to be paid for the specific outputs and outcomes and the circumstances in which prices may be varied.* Where the price to be paid does not cover the full cost of service provision, the contracting department should clearly specify this, stating that the service provider is expected to make a contribution to the cost of providing the service. The full amount of this contribution should be specified in the service agreement.
- *the times, amounts and methods of payments by the government;*
- *the outputs and outcome measures by which performance will be assessed.* Where outcomes are difficult to measure, these should be in terms of policy objectives;
- *the penalties and rewards for performing below or above agreed standards.* Consideration should be given to the appropriateness of rewards/incentives where service providers exceed the agreed performance standards;
- *a requirement for compliance with relevant State and Territory laws;*
- *the accountability requirements of the various parties to the agreement; and*
- *the mechanisms for resolving disputes.*

7.12 These recommendations reflect similar recommendations in the report prepared for the ACT Chief Minister's Department referred to in paragraph 6.25.¹¹⁷

Managing Tender Processes

7.13 Previous chapters have highlighted major inadequacies in current tendering processes. These included poor communication and consultation between contracting agencies and service deliverers throughout the tender process, resulting in misunderstandings in regard to contract requirements and a lack of transparency in the tender process; a lack of expertise in

¹¹⁷ Rogan, L, Johnston, C and Morgan, E, *Implementation of Service Purchasing Arrangements in the Australian Capital Territory*, Report prepared for the ACT Chief Minister's Department, 1997: 53.

regard to the preparation of tender documents and ongoing contract management; a lack of subject matter knowledge which has led to inadequate contract specifications; a lack of clarity regarding the respective responsibilities and accountability requirements of contracting departments, service deliverers and clients; and unreasonable time frames being imposed on tenderers.

7.14 The Committee believes that contracting agencies who have ultimate responsibility for ensuring the service quality, also have a key role to play in ensuring that tender processes are as robust and streamlined as possible.

Recommendation

7.15 The Committee recommends that contracting agencies establish service charters to ensure that:

- *staff of government agencies are adequately trained in tender preparation and contract management before proceeding to contracting out of services;*
- *tender documents are prepared within a specified period;*
- *there is adequate advertising of the tender specifications and selection criteria so as to encourage the largest possible field of tenderers;*
- *there are mechanisms in place for responding to questions from tenderers prior to selection of the successful tenderer;*
- *there is an impartial and transparent assessment of tenderers against clear selection criteria;*
- *decisions as to the successful tenderers are made within a specified period. To this end, contracting agencies should commit to developing performance benchmarks for decision turn around time;*
- *successful and unsuccessful tenderers are notified of the outcome within a specified period; and*
- *contracts are provided within a specified period.*

Ongoing Management of Service Agreements

7.16 Once the service has commenced, contracting agencies have a responsibility to ensure that the contract is managed efficiently and fairly throughout the period of the contract.

Recommendation

7.17 The Committee recommends that mechanisms be put in place to ensure that:

- *payments to service providers are made within the time specified in the service agreement, provided that there has been no breach of the terms of the contract. Late payment is to be avoided as this is likely to place a financial strain on service providers;*

- *there is regular communication with service deliverers to resolve any service delivery issues or concerns that may arise;*
- *appropriate mechanisms are in place for receiving and considering grievances arising from the contracted activity. It is important that these mechanisms be accessible to all service stakeholders, especially users of the service who are located in rural and remote locations; and*
- *performance of the service deliverer is monitored in accordance with the standards, benchmarks and performance indicators specified in the service agreement.*

7.18 Irrespective of whether services are delivered by an in-house provider or through a non-government provider, the development of processes that enable an agency to determine whether the service provider is achieving acceptable performance standards will have a significant bearing on the quality of the service. Without effective mechanisms for monitoring, it is not possible to know whether stakeholders are satisfied with the service being delivered.

7.19 Although there have been major advances in performance monitoring in the welfare services area, there remain major inadequacies which need to be addressed. These inadequacies include difficulties in measuring outcomes and the lack of a coordinated approach to the development of standards and indicators for outcomes. This has resulted in a plethora of standards and quality assurance systems being applied across the welfare sector. However, the evidence suggests that many of the current inadequacies have arisen largely out of the failure of governments to consult with other key stakeholders in the service.

7.20 Numerous witnesses appearing before this Inquiry stated that there was a need for a coordinated and collaborative approach which utilises the considerable expertise of non-government organisations.

7.21 As Aged Care Australia argued:

"To the extent that government is the purchaser of welfare services, it is appropriate that it play an active role in measuring efficiency and effectiveness of new service delivery arrangements. This should be done in partnership with key stakeholders with a view to ensuring that the results and feedback contribute to continuous improvement in all areas of planning, policy development, service delivery, monitoring and evaluation".¹¹⁸

7.22 The Committee agrees with this view and acknowledges that non-government organisations bring a wealth of accumulated experience and knowledge of welfare service delivery, the efficiency of which governments are seeking to measure.

7.23 There were a range of views expressed as to the most effective consultation mechanism for tapping the expertise of the non-government sector. Some witnesses called for the establishment of an independent regulator for the welfare services sector. Similar to

¹¹⁸ Submission No. 106, p.1106.

the New South Wales Community Services Commission, the body would comprise representatives from government, the non-government sector and consumers and be responsible for developing and monitoring national performance standards, and encouraging best practice within the non-government sector. Others were opposed to the establishment of another regulatory body, although there was general agreement that standards setting and monitoring should be independent of government.

7.24 The Committee agrees that standards setting and performance monitoring of the sector should sit outside of government in order to encourage the input of the non-government sector.

7.25 However, the Committee does not accept that there is a need for a new regulatory body for the sector, and believes that these functions could be effectively undertaken using existing infrastructure.

Recommendation

7.26 The Committee recommends that the standards setting and performance measurement functions (including centralised data collection) for the welfare services sector be transferred to the Australian Institute of Health and Welfare (AIHW). Independent of government, the AIHW has responsibility for the collection and dissemination of welfare statistics, including the SAAP National Data Collection. It also has responsibility for developing standards and classifications for the welfare services sector. As such, this represents an expansion of the current responsibilities of the AIHW rather than the establishment of new infrastructure.

7.27 The Committee also recommends that service-specific advisory committees should be established, comprising an equal representation from the contracting agencies, service providers and consumer representatives, in order to facilitate the effective flow of information between all service stakeholders and the AIHW.

7.28 As demonstrated in New South Wales (New South Wales Government, 1998), such committees offer the prospect of unfiltered information which helps identify differences in expectations and experiences between stakeholders. They also serve to bring the various stakeholders together in a policy domain which can help to shape better policy, while reducing the likelihood of criticism from interest groups about agency decisions which are seen to affect the sector.

7.29 However, as previously noted, contracting out can result in lines of accountability becoming extended, such that stakeholders are unable to determine who is responsible for ensuring service standards.

Recommendation

7.30 The Committee recommends that a clear statement of the contractor's responsibilities and those of the contracting agency be set out in the service agreement. This statement should cover:

- *Accountability of the service provider to the contracting agency for the services that they are providing. The government must be able to ensure that the contract is being fulfilled in a timely and appropriate manner, and that the legitimate scrutiny role of government is not being hindered by a lack of relevant information;*
- *Accountability of the service provider to the consumer of the service. Where welfare services are contracted out to non-government organisations, the consumer is the third party. As consumers of the service are not a party to the agreement, they may not necessarily have directly enforceable rights against the service provider, such as the provision of information access rights, privacy protection and complaints mechanisms;*
- *Accountability of the contracting agency to the service provider. Questions of accountability in contracting out often focus solely on the responsibilities of the service provider. However, it is also important that contracting agencies acknowledge their responsibilities to service providers by ensuring that the tender process is transparent and encompasses adequate mechanisms for unsuccessful tenderers to seek review, as well as adequate mechanisms for successful tenderers to seek redress for problems faced in performance of the contract.*

7.31 There is substantial evidence that current performance and accountability reporting requirements place a substantial burden on many non-government organisations, and that in some instances, this has resulted in a diversion of resources away from service delivery.

7.32 The Committee therefore believes there is a clear need to streamline reporting requirements to ensure that there is appropriate correspondence between reporting requirements and the size of contracts.

Recommendation

7.33 The Committee recommends that contracting agencies should adopt a continuum approach (see Chapter 6) in determining the level of financial and performance reporting (minimal or substantial) required of contractors. In terms of how rigorous the reporting should be, the amount of money involved is a useful indicator. In other words, where the amount of money is small, the simpler the information required of service deliverers should be, and the less rigorous the financial and performance reporting requirements should be. The larger the service agreement, the more rigorous the tender specifications, the more rigorous the financial and performance reporting requirements should be, and the more appropriate it is to require contractors to be accredited.

LIST OF SUBMISSIONS

Submission No	Person/Organisation
1	Confidential
2	Alcohol & Drug Foundation of the ACT
3	Meals on Wheels (SA) Incorporated
4	Community Services Council of the Sunshine Coast Inc.
5	Macarthur Community Care Forum
6	St. Andrew's Respite Day Care Centre
7	Mr Ron Leeks
8	Delatite Shire Council
9	Northern Territory Association For Mental Health Inc.
10	Melbourne Citymission
11	Confidential
12	Meals on Wheels Inc.
13	Confidential
14	Australian Advocacy Network
15	Caloundra Community Centre Inc
16	The Uniting Church in Australia
17	Mrs Elizabeth Bleby
18	Alzheimer's Association Victoria
19	Community Aid and Information Service Inc.
20	NSW Neighbour Aid Association
21	Queensland Women's Health Network Inc
Submission No	Person/Organisation

22	The Sophics
23	Bromilow Home Support Services
24	Logan & Albert Nth Disability Services Inc
25	Lake Macquarie/Newcastle Home & Community Care Forum
26	Supported Accommodation Assistance
27	Inner South West Community Development Organisation
28	Community Health Association QLD
29	Ms Rhonda Parker MLA
30	Meals on Wheels Association of Tasmania
31	City of Unley
32	Interchange Victoria
33	Kilmany Family Care
34	The Smith Family
35	Blue Mountains Community Interagency
36	NSW Indo-China Chinese Association Inc.
37	Confidential
38	Burdekin Shire Council
39	Caritas Christi and Order of Malta
40	Sutherland Shire HACC Forum
41	South West Network of Home and Community Care Coordinators Inc.
42	Wollongong Youth Accommodation & Support Association Inc.
43	Ms Margaret Marrum

Submission No

Person/Organisation

44	Aged Care Queensland Inc.
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45	Central Coast HACC Forum
46	Catholic Social Services
47	Queensland Meals on Wheels Services Association Inc.
48	Ms Denise Lamble
49	Association of Childrens Welfare Agencies
50	Aged Rights Advocacy Service Inc.
51	Nurses in Private Practice SA
52	Ms Jane Munro
53	Dapto Neighbourhood Centre Inc
54	National Federation of Blind Citizens of Australia
55	Cooma - Monaro Shire Council
56	Diabetes Australia
57	Anglicare Tasmania Inc.
58	Ms Dorothy Barber
59	Illawarra Forum Inc.
60	Baulkham Hills Shire Council
61	Victorian Association for Hospice and Palliative Care Inc.
62	Ku-ring-gai Municipal Council
63	University of South Australia
64	Central West HACC Forum Inc.
65	Central West Community Options
66	Residential Care Rights

Submission No

Person/Organisation

67	Illawarra Area Home and Community Care (HACC) Forum
69	ACROD

70	The Disability Council of NSW
71	Lifeline Darling Downs & South West QLD
72	Health & Community Coordination Committee
73	Churches of Christ Care
74	SANE Australia
75	Burdekin Community Association Inc.
76	Forum of Non Government Agencies
77	Social Development Council
78	Northern Region Industrial Advisory Committee
79	Snowy River/Cooma Monaro Community Transport
80	Lutheran Community Care
81	Community Services Employer Organisation
82	Sydney City Mission
83	Maroondah City Council
84	Enoggera Respite Centre
85	Older Persons Action Centre
86	National Council of Women
87	The Salvation Army
88	Australian Community Health Association
89	Northern Disability Forum
90	Council of Intellectual Disability Agencies Inc.

Submission No

Person/Organisation

91	Family Resource and Network Support Inc.
92	Churches Community Service Forum
93	Randwick Interagency

94	Community Futures Network
95	Chisholm Incorporated
96	Brisbane South Community Futures Network
97	Australian Retirement Home Ltd
98	Australian Association of Social Workers
99	Winton Shire Council
100	Adelaide Central Mission
101	Marrickville Council
102	Archdiocesan Welfare Advisory Committee
103	Maroondah Social & Community Health Centre
104	Council to Homeless Persons
105	Ms Mary Rose-Miller
106	Aged Care Australia
107	Community Rent Scheme Association of QLD
108	The NSW Council for Intellectual Disability
109	Barwon Adolescent Taskforce
110	Commonwealth Services Delivery Agency
111	Local Government Association of Queensland
112	Health Department of Western Australia
113	Ethnic Communities Council of NSW

Submission No

Person/Organisation

114	NSW Meals on Wheels Association
115	Australia Council of Social Service`
116	WA Network of Community Based Home Care Services
117	Anglican Community Services

118	Inner Sydney Neighbourhood and Community Centres' Forum
119	Local Government and Shire Associations of NSW
120	The Factory Community Centre
121	Holdsworth Street Community Centre
122	Ipswich Women's Health Centre & Sexual Assault Service
123	Australian Services Union
124	The Australian Association of Social Workers
125	Community Services Australia
126	Italian Australian Welfare Association
127	Migrant Resource Centre Inc.
128	Hervey Bay City Council
129	Mr Ray Wing Lun
130	Home and Community Care State Advisory Committee
131	Ettinger House
132	Queensland Health
133	Municipal Association of Victoria
134	Community Options Projects Inc.
135	Immigrant Women's Speakout

Submission No

Person/Organisation

136	Mackay Women's Support Service Inc.
137	Council on the Ageing (Victoria)
138	Australian Law Reform Commission
139	Australian Catholic Health Care Association
140	Local Government Association of South Australia

141	Eastern Sydney HACC Forum
142	Port Adelaide Central Mission Inc
143	Department of Health and Family Services
144	Department of Veteran's Affairs
145	Public Interest Advocacy Centre
146	Queensland Domestic Violence Services Network
147	Bribie Island Neighbourhood Centre
148	Australian Catholic Social Welfare Commission
149	National Council on Intellectual Disability
150	Community and Cultural Services Department
151	Project Micah Inc.
152	Barnados Australia
153	Youth Action Policy Association
154	Women's House Shelta
155	HACC Across the State
156	Australian Local Government Association
157	Blue Nursing Service
158	Tasmanian Government

Submission No	Person/Organisation
159	St Vincent's Community Services
160	Queensland Government
161	Minister for Youth and Community Services
162	Mission Australia
163	South Australian Council of Social Services
164	Australian Local Government Association

- 165 South Australian Government
- 166 Association of Childrens Welfare Agencies Inc
- 167 Upper Clarence Valley Health and Welfare Council
- 168 NSW Migrant Resource Centre Forum
- 169 Centacare Catholic Family Services

APPENDIX 2

LIST OF WITNESSES APPEARING AT PUBLIC HEARINGS

(Organisations are listed in order of appearance. Individuals in alphabetic order.)

Monday, 6 October 1997 - Melbourne

Alzheimer's Association Victoria

Ms Lynette Moore, Executive Director

Australian Services Union

Mr John Harris, Industrial Officer
Mr Time Lee, Assistant National Secretary
Mr Michael Montgomery, Member

Council on the Ageing (ACT)

Mr Denys Correll, National Executive Officer
Ms Veronica Sheen, National Policy Officer

Council to Homeless Persons

Mr Bryan Lipmann, Director

Good Shepherd Youth & Family Service

Mr Damien McCartin, Social Policy and Research Worker

Melbourne Catholic Social Services

Father Joe Caddy, Executive Assistant
Ms Marilyn Webster, Associate Director

Melbourne Citymission

Mr Ray Cleary, Chief Executive Officer

Municipal Association of Victoria

Ms Elizabeth Johnstone, Board Member
Ms Jennifer Wills, Director

National Federation of Blind Citizens of Australia

Mr William Jolley, Executive Officer
Mr Ivan Peterson, Victorian Information and Advocacy Officer

Residential Care Rights

Ms Mary Lyttle, Chief Executive Officer

SAAP Regional Network Gippsland

Ms Wendy Gilbert, Coordinator

Friday, 24 October 1997 - Canberra

ACROD

Mrs Janet Braithwaite, Executive Director

Mr Bryan Woodford, Vice-President

Anglicare Australia

Ms Sue Kirkegard, Executive Officer

Australian Association of Social Workers

Mr Ian Rentsch, Chief Executive Officer

Australian Catholic Health Care Association

Mr Francis Sullivan, Executive Director

Australian Catholic Social Welfare Commission

Mr Toby O'Connor, National Director

Australian Local Government Association

Mr John Pritchard, Policy Manager, Economic and Regional Development

Barnados Australia

Ms Susan Tregeagle, Director of Program Services

Centrelink

Mr Graham Bashford, General Manager, Business Development

Mr Michael Goldstein, General Manager, Contestability and Contracts

Department of Health and Family Services

Dr Marion Amies, Director, Policy Development Section

Ms Lynelle Briggs, First Assistant Secretary, Portfolio Strategies Group

Dr Robert Wooding, Assistant Secretary, Budget and Performance Strategy Branch

Department of Veteran's Affairs

Mr Patrick Callioni, Branch Head, Planning Standards and Veterans Services
Mr David Watson, Branch Head, Rehabilitation and Special Services

Monday, 3 November 1997 - Sydney

Australian Council of Social Service Inc.

Ms Betty Hounslow, Director

Central West Community Options

Ms Robyn Frost, Senior Project Officer

Central West HACC Forum Inc.

Mrs Helen Morgan, Chairperson

Disability Council of NSW

Mr Ben Folino, Policy Officer
Ms Karen Peacock, Council Member

Lake Macquarie/Newcastle Home & Community Care Forum

Ms Christine Finch, Secretary
Mrs Yvonne Selby, Forum Member

Migrant Resource Centre (NSW)

Ms Ricci Bartels, Representative
Ms Kate Lee, Representative

New South Wales Forum of Non-Government Agencies

Mr Roy Bishop, Coordinator, Local Community Services Organisation
Ms Mary Perkins, Deputy Director, Policy
Mr Stephen Rix, Senior Policy Officer

NSW Council of Social Service

Mr Gary Moore, Director

NSW Local Government Community Services Assoc.

Ms Kathy Brown, Member, Aged Services Division
Ms Mary Stringer, Member, Aged Services Division
Ms Darleen Taylor, Member, Aged Services Division

Sydney City Mission

Mr Michael Jarque, Project Officer

Mrs Johanna Wilcox, General Manager, Client Services (NSW)

The Salvation Army

Ms Margaret Hamley, Program Director
Major Kenneth Sanz, Secretary, Territorial Social Services

Tuesday, 4 November 1997 - Sydney

Central Coast HACC Forum

Ms Therese Hutchison, Vice Chairperson
Mr Greg Louie, Chairperson
Ms Robyn Skuse, Member
Ms Michelle Vohradsky, Secretary

Health & Community Coordination Committee

Ms Bronwyn McNamara, Chairperson
Ms Faye Williams, Committee Member

Home Care Service of New South Wales

Mr Raymond Bale, Branch Manager

Illawarra Forum Inc.

Ms Helen Backhouse
Ms Joanne Pollard, Executive Member

NSW Meals on Wheels Association

Ms Jeanette Antrum, Director

The Association of Childrens Welfare Agencies

Mr Eric Scott, Association Manager

Monday, 9 February 1998 - Hobart

Meals on Wheels Association of Tasmania

Mrs Jacqueline Dermody, Executive Officer
Mr Roy Preece, State President

Monday, 16 February 1998 - Adelaide

Adelaide Central Mission

Ms Sue Park, General Manager

Mr Stephen Richards, Chief Executive Officer
Mr Christopher Talbot, Senior Policy & Research Officer

Anglicare SA

Mrs Priscilla Binks, Executive Manager, Research and Development
Mr Gerard Menses, Chief Executive

Community and Neighbourhood Houses & Centres Assoc.

Ms Rosemary Neal, State Community Development Coordinator

Department of Human Services

Mr Richard Deyell, Deputy Chief Executive Officer

Department of Human Services (Victoria)

Mr George Beltchev, Executive Director
Mr Lange Powell, Executive Director

Local Government Association of South Australia

Ms Wendy Campana, Director, Reform Strategy
Ms Anna Vallejo, Community Services Adviser

Lutheran Community Care

Mrs Colleen Fitzpatrick, Director
Mr Gregory Were, Manager, Low Income Services

Meals on Wheels (SA) Incorporated

Mr Grant Andrews, General Manager

Port Adelaide Central Mission Inc

Mr Peter Bicknell, General Manager
Ms Elizabeth Craft, Senior Project Officer

South Australian Council of Social Service

Mr Mark Henley, Executive Director
Ms Anne Hodgson, Organisation Member

Wednesday, 18 February 1998 - Perth

Department of Family and Children's Services

Ms Paula Bagdonavicius, Strategy and Funding Management

Dept. of Family & Children's Services

Mr Paul Birchall, Industry Development & Service Specifications

Health Dept. of Western Australia

Ms Eileen McDonald, c/- Aged and Continuing Care Unit

Heath Dept. of Western Australia

Ms Elaine Olley, c/- Aged and Continuing Care Unit

WA Network of Community Based Home Care Services

Ms Helen Dullard
Ms Rachel Robertson
Mrs Leonore Takayama

Monday, 16 March 1998 - Brisbane

Individuals

Ms Debra Parks
Ms Mary Rose-Miller

Australian Retirement Home Ltd

Mr Sam Terranova, General Manager

Bribie Island Neighbourhood Centre

Ms Ingrid Delfos, Community Development Worker
Mr John Seccombe, Member

Bromilow Home Support Services

Mr Paul Hawting, Managing Director

Churches Community Service Forum

Reverend Douglas Jones, Member
Mr Brian Kennedy, Member
Mr Kenneth Smith, Member

Community Futures Network

Ms Michele Bourke, Member
Ms Diana Halson
Ms Gabrielle Huggett, Member
Ms Sandra Sewell, Project Officer
Dr Paul Smyth, Lecturer, School of Social Work

Department of Families, Youth and Community Care

Ms Grazia Catalano, Program Director, Youth Program
Mr Noel Culbert, Deputy Director-General
Mr Roger Eriksson, Senior Project Officer, Community Care Program
Mr Mark Francis, Program Director, Disability Program
Ms Erna Hayward, Regional Director, North Queensland Region

Institute for Health Communities Australia

Mr Christopher Leon, Executive Director

Local Government Association of Queensland

Mr Gregory Hoffman, Director, Policy and Research
Ms Helen Wallace, Association Member

Project Micah Inc.

Mr Michael Tansky

Queensland Meals on Wheels Services Association Inc.

Mrs Lois Baker, State Treasurer
Mrs Kathleen Lowe, State President

Queensland Women's Health Network Inc

Ms Anna Carroll, Chairperson
Ms Miriam Taylor, Worker

Wednesday, 18 March 1998 - Townsville

Burdekin Community Association Inc.

Mrs Joan Heatley, President
Ms Majella Meehan, Management Committee Member

Burdekin Shire Council

Mr Graham Webb, Chief Executive Officer
Centacare, Catholic Family Services

Mr John McDermott, Director

Northern Region Industrial Advisory Committee

Mrs Gwenyth Cutler, Chairperson

Townsville City Council

Ms Julie Walder, Community Services Manager

Friday, 3 April 1998 - Canberra

Australian Law Reform Commission

Mr Alan Rose, President

Department of Health and Family Services

Dr Robert Wooding, Assistant Secretary, Portfolio Strategies Group

Dept. of Finance and Administration

Mr Stephen Bartos, General Manager, Resource Management

Dept. of Health & Family Services

Dr Marion Amies, Portfolio Strategies Group

Tuggeranong Office Park

Mr Graham Bashford, General Manager, Centrelink
Mr Michael Goldstein, General Manager, Centrelink

Uniting Community Services Aust.

Ms Elizabeth Davies, National Director
Mr Les MacDonald, National Chair, Aged Care