

Submission

No 76

Outsourcing Community Service Delivery

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Submission to the Inquiry into
Outsourcing Community Service Delivery
NSW Legislative Assembly Community Services Committee

Submitted by:

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About Mission Australia

Mission Australia is a large national, not for profit company limited by guarantee that has been transforming the lives of Australians in need for more than 150 years. Our vision is to see a fairer Australia by eliminating disadvantage for vulnerable Australians. We aim to do so by strengthening families, empowering youth, striving to solve homelessness and providing life and work skills and employment solutions.

In 2010-11 Mission Australia Community Services delivered 349 services (including our Early Learning Services), assisted 133,807 individuals and 8,568 families and provided a total some 103,728 instances of service while our 210 Employment Solutions teams worked with 154,929 job seekers. During that same period MA Housing grew their housing portfolio from 184 properties in 2009-10 to 1,071 properties in 2010-11 enabling them to provide affordable housing for a greater number of low to moderate income households.

Mission Australia extensive experience in delivering outsourced programs includes the Job Network (federal program) and Mission Australia Housing (NSW, Victoria and Tasmania). We have a small amount of experience in the delivery of outsourced disability and home care services primarily in Tasmania.

Outsourcing

We have used a definition of outsourcing as “the purchase of goods or services previously provided internally in an organization”¹² Many services that Mission Australia provides have never been provided by government, for example most homelessness services. Others, such as the current Job Services Australia contract are clear examples of an outsourced service.

We note the valuable comment of Prof Mark Lyons to the Productivity Commission Inquiry into the Contribution of the Not-for-Profit Sector who said:

It is important the Inquiry does not subscribe to the common myth that sometime in the 1990s State and Federal governments moved to outsource lots of services previously provided by public servants to the non-profit (or non-profit and for-profit sector). In fact, the only services so outsourced were those previously provided by the CES [Commonwealth Employment Service], and a few child welfare services. The great growth of government payments to non-profit organisations is the result of massive increases in the demand for services always provided by (or mainly provided by) non-profits. What changed (and slowly over a decade or two from the mid-1980s) was the language which governments used and the rules which governments set in place to control the services that they subsidised (and occasionally fully funded). (sub. 169, p. 19)³

² Abelson, P “Outsourcing of Public Services in Australia: Seven Case Studies” p2
<http://www.clg.uts.edu.au/library/onlinelibraries/ipresources/OutsourcingPublicServices.pdf>

³ Productivity Commission *Contribution of the Not-for-Profit Sector* (2010) p.302

Response to terms of reference:

That the Committee inquires into and reports on the devolution and outsourcing of housing, disability and home care service delivery from the Government to the non-Government sector, with particular reference to:

a) State Government processes, outcomes and impacts of transferring housing, disability and home care services from Government to non-Government agencies;

We will speak to our experience in housing in New South Wales through MA Housing.

MA Housing is a national Community Housing Provider. It was established in May 2008 and commenced operations in April 2009 as a separate company within the Mission Australia Group, providing long term social and affordable rental housing to low and moderate income households.

MA Housing operates through two separate housing companies, due to different state regulatory environments. MA Housing (Victoria) Ltd operates only in Victoria and MA Housing Ltd operates in all other States.

Leveraging the strength and support of Mission Australia, MA Housing has been established as a viable and progressive new entrant to social and affordable housing in Australia.

The case for outsourcing housing

Within Australia approximately 335,000 homes, with an estimated asset value approaching \$82bn, are currently owned and managed by state governments. The costs of maintaining and upgrading these homes, along with the pressing need to substantially increase supply, cannot realistically be funded by the public sector alone. Consequently, there is an urgent need for innovative funding and investment to be brought into the provision of housing.

The mature community housing sector in the UK has now levered in excess of GBP 40 billion into the delivery of social housing, affordable housing and urban renewal – without any financial default. This low risk conduit for investment by the private sector is further accentuated when contrasted with the huge banking losses suffered during the global financial crisis within the UK, Europe and beyond.

The 'not-for-profit' housing sector has demonstrated overseas, and is quickly proving in Australia, that investment via a housing association has the potential to provide locally accountable, well managed, sustainably funded housing that spreads government investment further, produces more homes and delivers improved services to customers.

Transfer of existing public housing from state and territory governments to community housing providers for redevelopment has the potential to begin in earnest within the next two years – and not just one flagship test project per state/territory. Once the process of stock

transfer and investment has been proven, it is likely to continue and indeed accelerate for another 20 to 30 years.

Community housing providers simply managing redeveloped public housing assets will not be efficient or indeed sufficient. From the experiences in the UK, partnerships that place these organisations at the centre will substantially mitigate delivery risk for all partners and will avoid massively complicated and expensive one-off project delivery structures. Boldness is now required by state and territory governments to exploit and unleash the capacity of not-for-profit housing associations to creatively and cost-effectively work with them and private sector partners to rejuvenate well-located, run down public housing estates and deliver much needed mixed-tenure, modern homes.

National registration standards for community housing providers that are not unnecessarily paternalistic or restrictive, together with a commitment to annual capital funding from both federal and state/territory governments, would not only confirm policy and funding direction but also create greater market certainty.

Outcomes of the scale required will also require a 'layering of funding' – mixing revenue or capital grants with cross subsidisation from the wider business, creative land deals and sustainable levels of debt and equity.

To facilitate major investment into the revitalisation of poorly performing public housing estates, partnerships with developers, builders and banks on a scale not seen before in Australia are likely to be next on the agenda. It should be noted that although the community housing sector is emerging rapidly, global competition for capital will mean that growth predominantly will occur in states and territories that both want the activity, and actively work to facilitate it.

MA Housing continues discussion with state governments including New South Wales and time will tell which will leverage the most significant and creative long-term investment from the community housing sector in the next 10 years. For large scale investment in new social and affordable housing – and for mixed-tenure renewal of existing public housing estates to be turned into reality, along with vision, passion and leadership – it will be absolutely fundamental to engage with local councils and local people, to deliver local solutions and create world-class outcomes.

b) The development of appropriate models to monitor and regulate service providers to ensure probity, accountability and funding mechanisms to provide quality assurance for clients;

With respect to housing, Mission Australia fully supports the current regulatory arrangements in New South Wales and we support the current plans to implement a national regulatory system, primarily as we currently operate in 3 jurisdictions each with their own regulatory arrangements.

We argue the current form of regulation is both strategic and necessary. This has been part of a shared government and sector strategy to enable stock transfers as government sought to protect the Crown's interests as assets while still allowing access to the asset for the

purposes of raising debt. It also protects the interests of tenants through ensuring the organisation is well governed and managed and that, through compliance with the National Community Housing Standards, that the services are also delivered to meet or exceed the standards.

The Victorian *Housing Act* gives their Registrar wide ranging powers, the most extreme of which may only be exercised through a failure to comply with the Act and if the Registrar is satisfied that it is appropriate to exercise the power.⁴ It can, in extreme cases, recommend the appointment of specific directors⁵ or even order the distribution of assets or appointment of an administrator.⁶

Most registration is risk based – that is, as government's exposure to risk increases because the provider is large, or holding government funded assets, and undertaking developments themselves, then the regulatory oversight is much higher than for a small provider.

Mission Australia Housing Ltd is registered in NSW as a Class 1 Provider – the highest level of registration with the most stringent requirements.

The regulators in NSW and Victoria have set a number of restrictions aimed primarily at ensuring that housing assets are retained for housing purposes. They will not allow:

- The loss of assets out of housing – e.g. through transferring surpluses from MA Housing to Mission Australia or any other entity. This is to ensure assets continue to be applied to housing and not for other purposes, charitable or otherwise.

Benefits of regulation

The benefits of regulation are:

- Without regulation, there would be no transfer of assets. Regulation has provided government with the confidence to allocate, so far, over \$300M worth of assets to MA Housing.
- Regulation, especially the reserve powers of regulators, reduces risk and, to some extent, underwrites the deal from the point of view of finance providers. Knowledge that the government has the power to rescue a failing housing provider brings the perception of risk down considerably for financiers.
- The regulators expect high standards of governance, management and service delivery. They have expectations about the level of debt they will allow any provider to carry and the level of exposure to risk.

Costs of regulation

- Achieving registration at the highest level required a considerable investment from Mission Australia and MA Housing to develop policies, procedures and systems that support good governance and a high quality service. There is an ongoing cost to maintaining the required standard of governance and management.

⁴ S130 (2) *Housing Act 1983 (Victoria)*

⁵ S131 *Housing Act 1983 (Victoria)*

⁶ S132 *Housing Act 1983 (Victoria)*

- The regulator can intervene in the governance and affairs of the housing association if it is not meeting the standards. The Victorian regulator currently has more powers than the NSW one. MA Housing does not anticipate these intervention powers will ever be required, it must be stated.

c) The development of appropriate levels of integration among service providers in rural and regional areas to ensure adequate levels of supply and delivery of services;

Mission Australia considers that reducing fragmentation of services, addressing funding arrangements and reviewing the role of government are ways that all levels of government could work better together to ensure services are better delivered in rural and regional areas.

Reducing fragmentation of services

Under the current arrangements, there is too much fragmentation between the funding bodies, their funding arrangements and the services provided in remote Australia. Improved coordination is required between the various levels of government. A lack of coordination is creating duplication of services and placing undue stress on clients and service providers because they are delivering programs with different funding regimes and objectives.

Greater alignment is therefore required to ensure all services more effectively complement each other; that they combine to achieve shared goals, and that there is appropriate reward for the services provided. These integrated services can also be delivered in a holistic way once a relationship has been established with the client and they have been placed at the centre of service delivery.

Funding arrangements

Longer-term funding arrangements would also facilitate relationship-building in remote areas and promote better outcomes over the long term. Minimum nine-year funding contracts would enable effective investment in remote communities and allow the implementation of strategies to foster longer-term support and economic development activities and relationship-building with individual job seekers and their communities, especially remote Indigenous communities.

d) Capability frameworks ensuring that community agencies are not overly burdened by regulatory constraints;

Mission Australia strongly supports a framework that reduces regulatory burden. We acknowledge and accept that with government funds comes an obligation to report on financial and operational performance.

We have invested in systems that will allow us to report on outcomes and eventually on impact and through research and innovation we have the ability to trial new approaches and to measure their effectiveness.

Funding agreements that are strongly focused on contract compliance and micro-management by funding agencies, in our experience, militate against innovation and a focus on delivering on the clients' needs. They typically prevent flexible responses and the ability to address emerging needs. They assume that government funders know best about the delivery of the service in question and rarely take account of the knowledge of frontline staff and clients.

In developing new services, Mission Australia seeks to incorporate Australian and international research, evaluation and knowledge of what works in service delivery, practice wisdom and a willingness to try new approaches. We see a regulatory environment that allows these models to flourish, while still ensuring stewardship of public resources.

e) Enhanced capacity building and social integration in the delivery of services by local providers;

A myriad of small contracts with a strong emphasis on inputs, outputs and contract compliance militate against the delivery of services that are specific to a community. It can also result in disconnected and fragmented services. In contrast, integrating services and involving the community in their design and delivery can address needs that may not have been identified by Government and could be missed within universal service provision. Such an approach also enhances the capacity of a community and the social integration of the services provided, as people are more likely to engage with a service if they've been involved in its development.

One way to achieve enhanced capacity building and social integration of services is to undertake a community development approach. Mission Australia has recently undertaken an examination and review of this approach and we are seeking to integrate it into the way we work with communities. In a community development approach, communities go through a process of being responsible, organising and planning together, empowering themselves, reducing poverty and suffering, creating employment opportunities and achieving social, economic, cultural and environmental goals.

The principles of a community development approach, that we believe are vital for ensuring communities have more ownership and responsibility, are that engagement is:

- sustainable and helps communities to develop appropriate strategies to build capacity;
- based on long term investment;
- undertaken where there is confidence in the capacity to engage over the longer term, and
- evidence based.

Organisationally, we have adopted a placed-based community development approach to engage with communities. For example, we take an inclusive, strengths-based approach

through our involvement in federal Communities for Children program. We note from our research that community development does not just happen – it requires both a conscious and a conscientious effort to act to improve the capacities of communities. We are committed to working with communities to create local solutions to develop long-term, integrated and sustainable solutions to their social, economic, environmental and cultural aspirations. We also work to manage community expectations by ensuring we do not promise what we cannot guarantee.

f) Future employment trends, expectations and pay equity for women employed in the non-Government sector;

Workforce development is a key consideration in the outsourcing of housing, disability and home care service delivery to the non-Government sector. It is well understood that demand for health and community services is likely to significantly increase in the near future, in part due to the ageing of the population, and that the workforce to deliver these services will have to grow accordingly. In its 2010 Report on the Contribution of the Not-for-Profit Sector, the Productivity Commission noted the community services sector appear to experience the greatest challenges in attracting and retaining employees. Low wages contribute to the substantial movement of employees from not-for-profits to the public sector, and this is compounded by uncertainty created by fixed term contracts. The Productivity Commission argued that addressing such challenges is vital to enhancing the efficiency and effectiveness of these not-for-profits, especially those delivering government funded community services.

Pay equity will assist with some of the challenges the non-Government sector faces in employee retention. In the recent Fair Work Australia case, Mission Australia strongly supported equal pay for work in the community services sector. We believe that existing award rates undervalue the importance of the community service sector's efforts, and address this by providing pay rates for our community service staff in advance of those in the award. However, there are consequences of Fair Work Australia's decision to provide equal pay. The decision will create higher costs for not-for-profits and as a result, potential reductions in the level and range of services that will be able to be provided to people in need; possible closures of services; changes in relativities of work being undertaken in the sector and between individuals working in the sector; and greater strain on fundraising supported programs.

Mission Australia wishes to avoid a situation where some of Australia's most vulnerable miss out on the services they need because charities can no longer afford to pay for them. As such, we supported the ACOSS campaign calling on the state / territory Governments to match the Federal Government's commitment to fully fund any changes in pay and conditions, and we welcome the NSW Government's recent commitment to fund their fair share of the outcome from the case.

g) Incentives for private philanthropy in the funding of community services;

Mission Australia is grateful for support from private philanthropy. In 2010-11 we received \$28,198 from private individuals, corporations and trusts and foundations.

Economic uncertainty is making it difficult for all charities to encourage individual donations – large or small. However, we're very fortunate that support from our major donors has held up in recent years.

Partially that's because many of our major donors have been supporting our work over a very long period of time. We've built up a relationship with them, they have a personal interest in the services and issues they support and they back us through thick and thin.

Australia's fundraising environment has changed dramatically over the past decade. Donors, whether they're giving a modest or large amount, not only want to make a difference, but they also want to see outcomes, and rightfully so. We offer major donors the opportunity to work with us on the initiatives they support, often from the ground up. We place a great deal of emphasis on evidence-based research so we can report on the outcomes we've achieved through their generosity.

We've found that approach has been welcomed by major donors who want to be engaged on the issues and how their donation will be managed. As an example, our most significant individual donation in recent years was aimed at achieving improved outcomes for homeless men – the Michael Project. The donor approached us with a very specific aim – to target homelessness – and wanted to be engaged in the entire process. That donor also requested that funding be allocated to a research project to measure the efficacy of the approach and the public benefit. That research was published in April 2012 and is currently being used to inform public policy development.

In our experience, donors are unlikely to donate to something that they perceive government should be delivering or funding. They are least likely to donate to a service that government chose to stop funding. They are much more likely to donate to a service that is innovative, is targeted at a real human need and that can demonstrate it is making a difference.

h) The use of technology to improve service delivery and increase cost effectiveness;

Outsourcing of Government services implies the delivery of services across multiple service delivery agencies. As such, clients will have to navigate across a number of service delivery agencies. Technology plays a critical role in supporting co-ordination and co-operation across these agencies to ensure clients experience joined-up, cohesive and effective services.

In general, the not-for-profit sector has found it difficult to justify investment in technology as there are often more pressing client needs, despite the longer term benefits technology is known to bring. However, in an outsourced environment with multiple service delivery

partners, upfront investment is critical to the smooth functioning of such a system. A proven model of outsourcing services involves a single lead agency, which connects clients effectively to relevant universal or secondary services that can meet their needs. To enable this model, a technological system is needed to provide navigation, assessment, planning, communication and co-ordination at a local level through a single access point.

Mission Australia has invested heavily in our capacity to act as a lead provider and use data to improve our service delivery. Mission Australia has developed a client management system that is currently being rolled out across the majority of our Community Services. We have worked with a software developer to create a bespoke online client record management system, Mission Australia Community Services Information Management System (MACSIMS), which won the 2010 Information and Communication Technology award for best software application in the not-for-profit sector.

In addition to streamlining case management processes and workflow, MACSIMS provides data including outcomes at individual, service and organisation wide level and it can aggregate or correlate data for multiple purposes including quality benchmarking, research and analysis, compliance, and for advocacy and policy development.

MACSIMS is now embedded in 176 services, and is on track to be implemented across all of Mission Australia's more than 300 community services across the country by the end of 2012.

i) A comparison of the management and delivery of similar services in other jurisdictions; and

MA Housing (Victoria) Ltd is a related company that operates exclusively in Victoria. We will be responding to a recently released discussion paper⁷ on options to improve the supply of social housing including changes to community housing. This inquiry may be interested in reviewing that discussion paper.

Mission Australia in Tasmania currently delivers the Disability Gateway (intake and assessment) and the Disability Local Area Co-ordination (case support and referral to disability service providers) in the South East and North West regions that cover 50% of the state population base. The program also provides integrated support for families at risk of engagement with the statutory child protection system.

A major review of this program⁸ recently found that:

"Tasmania is well served by the Gateway and Family Support Services model, and that the service system is functioning as intended. Key features such as the Community Based Child

⁷ *Social Housing: A discussion paper on the options to improve the supply of quality housing*
http://www.dhs.vic.gov.au/_data/assets/pdf_file/0004/709402/housingframework_socialhousingoptions_30042012.pdf

⁸ *Gateway and Family Support Services Mid-Term Review Report*, (2011) Department of Health and Human Services Tasmania http://www.dhhs.tas.gov.au/_data/assets/pdf_file/0003/88743/GWFSS_Mid-term_Review_Report_2012-02-02_FINAL_VERSION_FOR_WEB_PUB.pdf

Protection Team Leader, Gateway services, Integrated Family Support Services and case allocation processes are working effectively. The client survey provides heartfelt feedback from parents about the value of the services and the skills of their workers.”⁹

The review reported that the program is cost effective, is achieving intended outcomes including that children have been diverted from the statutory system and that the integrated operational model that includes a number of non-government and government agencies is working well. The review recommended areas for improvement in the context that the model should continue to be funded and supported.

j) Any other related matters.

Outsourcing through Social Impact Bonds

Another way to consider the outsourcing of services to the non-Government sector is through the use of Social Impact Bonds (or Social Benefit Bonds). A Social Impact Bond is a contract with the public sector where it commits to pay for improved social outcomes. On the basis of this contract, a bond issuing organisation raises investment from socially motivated investors. This investment is used to pay for a range of interventions to help improve social outcomes. If social outcomes improve, investors will receive payments from government. The payments repay the initial investment plus a financial return. The financial return is dependent on the degree to which outcomes improve. Some of the key objectives of SIBs including increasing the pool of capital available to fund early interventions; encouraging a broad diversity of service providers and collaboration between providers; and aligning public sector funding more directly with improved social outcomes.

The NSW Government has indicated its commitment to this approach by undertaking a trial to two Social Benefit Bonds, one seeking to reduce demand for children’s out of home care and the second seeking to lower the reoffending rate of young criminals exiting the prison system. Mission Australia has been successful in responding to the recidivism tender, and is working closely with the Government and our financial intermediary partner Social Finance to determine the cost of services, achievable outcomes and viable schedule of outcomes payments.

The experience of these initial tenders will be critical to the future use of Social Benefit Bonds as a viable option for outsourcing the delivery of social services. Key considerations will be the upfront investment required (based on costs of services), outcomes achieved, effectiveness of outcomes payments and share of cost savings to be distributed to investors.

⁹ *Gateway and Family Support Services Mid-Term Review Report (2011) page 6*