

Outsourcing Community Service Delivery

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The Committee Manager
Committee on Community Services
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Macquarie St
SYDNEY NSW 2000
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Re: Submission to NSW Legislative Assembly Inquiry into Outsourcing Community Services Delivery

Thank you for the opportunity to provide input to the Inquiry into Outsourcing Community Services Delivery. This submission is lodged on behalf of the Board of Management of Southern Youth and Family Services (SYFS). Our submission commences with a brief introduction to our agency. We then address the coverage of the Terms of Reference for this Inquiry through discussion of key issues arising. Finally, we include our conclusions and recommendations pertaining to the outsourcing of community services.

Background on Southern Youth and Family Services:

SYFS is a medium sized community based agency providing a range of services to disadvantaged, homeless and at risk of homelessness young people and their families. We are an independent community based organisation which is Incorporated as an Association and a Registered Charity. The principle aims of SYFS are:

- To provide support and assistance to young people who are disadvantaged, homeless, or at risk of becoming homeless, and their families,
- To act as an advocate for, and facilitator of, structural change that achieves improved living situations for young people and their families.

We work to increase access for young people and families to:

- Secure and affordable, individual housing
- Employment, education and training
- Secure and adequate income
- Health supports and services
- Appropriate support services
- Clothing, food and other practical assistance.



SYFS provides 38 different service types under 20 contracts with various State and Federal Government Agencies. In the 2010 / 2011 period SYFS provided accommodation for 283 young people and provided a full range of other service types to 2,173 young people and 1,089 families. SYFS employs 120+ staff and engages a pool of casuals and volunteers to assist in service delivery. SYFS operates in Southern NSW, including the Local Government Areas of Shoalhaven, Kiama, Shellharbour, Wollongong and Goulburn and operates one service as a National service (the Transition to Independent Living Allowance Program).

Key Issues and Responses to the Inquiry's Terms of Reference

1. Defining the Non-Government Sector / Agencies

The Terms of Reference do not make explicit the range of agencies defined as Non-Government. Our response to this Inquiry differentiates between Not-for-Profit (NFP) Non-Government agencies and for-profit agencies.

The outsourcing of Government Services over the past decades has been associated with the privatisation of areas that had traditionally been provided by the public sector, creating commercial opportunities and markets in the private sector for services such as school bussing, school cleaning, utilities, postal and telecommunications services etc.

In responding to this Inquiry, we would like to make it clear that we are not supporting the privatisation of community service provision. Outsourcing community service provision to NFP Non-Government agencies is the preferred model.

2. Relationships and the Role of State Government Agencies

Put very simply, there are three fields of activity relevant to outsourcing community service delivery:

- Policy Development,
- Contract Management, Regulation and Quality Control and
- Service Delivery.

All three have evolved into the current mix of outsourcing being implemented in NSW.

Policy Development: Whilst setting the broad policy parameters of community services rests with the political arm of Government, the public service in practice, develops policy recommendations, filters information and data on community service needs, delivery options, cost effectiveness and performance measures of models of delivery.

As the NFP Non-Government community services sector takes on increasing responsibility for community service delivery the link between NFPs and policy development needs to be strengthened. Delivery agencies are responsible for collecting the raw data required by Government policy makers through processes such as the Minimum Data Set (HACC and Disability Services), Specialist Homelessness Services data sets, etc. In addition, the service delivery agencies to a large extent implement their own evaluation strategies, consumer surveys and collection of case study or qualitative information. From this collection of information and data, the addition of practice knowledge, experience and local knowledge of communities and service systems can transform data into informative and evidence based knowledge that benefits the policy making process.

Whilst the public service / bureaucracies retain, and foreseeably will continue to retain control over the policy making process a complete separation between the policy field and service delivery field will work against successful outsourcing of community service delivery to the NFP Non-Government sector. Such a complete separation has the potential to distort the service delivery system in the same way that accountability processes have contributed to distorting the service delivery system. (discussed in detail below: p.7).

It could be argued that the State Government has to some extent already outsourced parts of the policy making process to the private sector (For Profit). In the areas of concern to this Inquiry (housing, disability and home care services) as well as other fields of community service provision (homelessness services, child protection services, family services etc), the NSW Government has contracted large, often international, Consultancy Bodies to prepare reports on cost-effectiveness, service system reform, recommended models of delivery, efficiency measures and even engagement with the NFP service sector. For example, the Boston Consultancy Group was engaged to undertake efficiency analysis and make recommendations in the field of Out of Home Care. KPMG was engaged to prepare reports associated with reforming the Child Protection system. Such reports are frequently held 'in confidence' by the Government Agencies. The NFP community services sector is excluded from information gathered and either excluded from the policy making process, or asked to participate without access to all the relevant information.

In this submission, we are not able to quantify the extent that elements of the policy process are outsourced as we do not currently have access to the information on consultancies being contracted, their purchase price, their outcomes or the details of the contractors engaged. However, we would urge the members of the Inquiry panel to seek this information. The openness and transparency of the policy making process is relevant to how a program of outsourcing is developed and how all stakeholders can be engaged in creating successful outcomes.

3. Contract Management, Regulation and Quality Control

This Inquiry includes “the development of appropriate models to monitor and regulate service providers to ensure probity, accountability and funding mechanisms to provide quality assurance for clients”. These processes are broadly undertaken through the contractual arrangements and the reporting processes and schedules. In outsourcing arrangements to date, the Government has retained control over the contracting and reporting processes with ultimate responsibility to ensure that outcomes are achieved. However, in some instances, contract management has been outsourced. When government/s have adopted a Lead Agency model, one Non-Government Agency is contracted to deliver a program in a locality or region and then to sub-contract elements to a network of specialist and other service providers.

This process transfers a substantial portion of contract management and quality control to the Lead Agency. Just two examples (from many) of this model include the Communities for Children (Federal) Program and Brighter Futures (NSW State) Program. Inherent difficulties in this model of outsourcing contract management have emerged. A presumption in the model is that it will build a more coordinated service delivery system on the ground and that it will simplify contract management for Government. However, Government has less control over issues of probity and quality of the contract management by the Lead Agency. The Lead Agencies frequently do not have the level of expertise, systems or experience in contract management of the Government agencies. Public accountability, access to information and access to processes for appeal or complaint are reduced through the model. For example, coverage by the Administrative Appeals Tribunal applies to Government Agencies and may not offer the same appeals and complaints rights for Community Service delivery agencies whose legal contracts are with another non-Government agency.

The Government Agency entering the contract with the Lead Agency also then receives all its information on outcomes, performance and financial reporting from that Lead Agency. The experience and knowledge of the sub-contracted agencies can become invisible to the Government Agency and to the policy making processes. It has been hard for us to track evidence that such a model has had a positive impact on service system co-ordination. However, again, we would urge the Inquiry to seek this evidence in order to gain a true analysis of the Lead Agency model prior to considering whether such a model should be considered under the Terms of Reference pertaining to “integration among service providers’ and ‘appropriate models to monitor and regulate”.

Elements of the Government’s responsibility around ensuring quality for consumers have also been outsourced or contracted to private providers. A self-evident example would be the requirement for Youth Health Services or Women’s Health Services in the funding contracts with NSW Government to undertake a Quality Management System Accreditation. Accreditation for these agencies is provided by private companies and not available in the public system.

4. Rural and Regional Areas

When outsourcing is based on a competition model, it assumes there will be a number of potential providers capable of competing for contracts and competing for clients. This is not always the case in relation to community services, especially in rural and regional areas. Outsourcing does not need to be premised on competition and competitive markets. It should not be assumed that outsourcing in rural and regional areas will by necessity generate cost savings to the Government. It can, however generate improved quality, flexibility and innovation in service delivery.

To sustain service delivery in rural / regional areas, it is important to ensure that the services offered are sustainable. Hence the following considerations are crucial:

- Longer term service contracts: short term contracts and repetitive re-tendering, particularly in rural / regional areas causes instability in the overall service system, confusion for clients and potential clients, loss of experience and knowledge in the service system and additional transaction costs to Government and Service Providers;
- Paying for the true costs of contracts: The ‘contract price’ for service delivery must be set to realistically cover the costs of providing the service, including, travel distances, outreach service model costs, training costs (and travel to training), organisational costs (including rent, car leases, administrative, management) and the staff, brokerage payments and other actual delivery costs. The cost of providing a service in rural /regional NSW may be higher in some instances than delivery in an urban centre due to the need to travel and take the service to the clients in large geographic areas.
- Choice for consumers: for many service types the choice for consumers is limited in rural / regional areas. The system of payments to the consumer to purchase the services they need is a good concept where the consumer can package up services tailored to their specific needs. However, unless the infrastructure of services is supported and funded, then the consumer may not have a local or regional provider from which to purchase their services. For example, if the consumer needs speech therapy services and has ability to pay for them, they will still not be able to access them if the nearest provider is 200 kms away.

A large risk in tying outsourcing to an approach based on presumptions about a competitive market is that it can lead to the creation of monopoly provision. Small, flexible and specialist service providers offer unique opportunities for consumers. Competitive tendering processes can favour large organisations with professional tender writers and more resources to devote to the tendering processes. Parts of NSW have seen the trend for small localised agencies being replaced by large national or even international providers. This can lead to:

- Loss of local knowledge and experience;
- Volunteers being less likely to offer their services and time and

- Reduction in local sustainability – explained below.

Community Service organisations that operate within a region and maintain their administrative functions within that region make significant contributions to the local economy and employment. From a regional perspective, we are concerned when a large number of contracts are awarded to providers with their head office and back office functions located in Sydney, other States or occasionally, other countries. From the Government's point of view, this means that the total investment made for service delivery in a regional or rural area does not get spent in that location. We estimate that up to 40% of the investment goes outside the region. The impact is that those jobs, such as Human Resources, Administration, Financial Management and Senior Level Management are lost to the region. A mechanism to overcome this issue is to give weighting in selection processes to local knowledge and experience. Similarly to the way businesses can value 'good will', community services with good relationships, networks, local knowledge and local reputation bring value to the delivery of services, reducing start-up and other costs incurred by outside providers.

Another regional / rural issue is that the success of any particular model of service delivery varies across localities and regions. It is tempting for Governments to use the evidence that a particular model of service delivery has high success rates in one / some locations to then contract for that model across the State or country. This does not account for all the variables of success, such as: the local service system make up, the local connections between supports from business or community and the service delivery agency and particular demographic or geographic issues of a regional location. This is most easily understood in providing services to the Aboriginal and Torres Strait Islander communities. A model that works in one part of the State may not be adaptable to the different cultures, relationships and services operating in another part of the State.

5. Advantages of outsourcing community service delivery and how these can be undermined:

The Productivity Commission Report on the Contribution of the Not for Profit Sector (2010:305) lists as the top four motivations for engaging NFPs in the delivery of community services were that NFPs:

- Provide flexibility in service provision
- Are better able to package the service with other services for the target client group
- Give value for money
- Are representative of the clients the program is targeting.

Contractual arrangements and accountability processes have the potential to undermine these advantages. This Inquiry's considerations need to include mechanisms to improve the purchasing and contracting arrangements.

It is well acknowledged (Productivity Commission Report 2010; NSW Government Reducing Red Tape Strategy) that the burden of red tape creates cost inefficiencies and impacts on service delivery. Organisations with contracts with a variety of Government agencies and through a variety of Government Programs provide the same information, in different formats to multiple sources. Over-regulation in funding contracts and service specifications can lead to micro management by Government and restrict flexibility of service delivery. Tight parameters around each Funding Program can prevent agencies from delivering holistic services tailored to the individual.

The purchasing model for specific service delivery components from specific Government Programs can distort the service delivery system. It is an atomising process that then requires complex arrangements to reconstruct to a more integrated and co-ordinated service system. Not for Profit Community Service Providers have a long history of collaborative working and joint projects or service delivery. This is eroded through competitive tendering and further eroded through narrow service specifications. The Government struggles to achieve a ‘whole of government’, ‘whole of person / community’ approach to service delivery because the contracting arrangements are based on purchasing services in pieces or parts of the whole that is needed.

A strategy that Governments are increasingly using is to limit the number of providers with whom they have contracts. Examples include the Social Housing service system in NSW and the Employment Services Network (Federal). It is a mechanism that reduces the number of local and regional providers of services and in the section on Rural and Regional issues above, we have discussed the value and importance of maintaining a diverse sector with local and regional providers being part of the service system. The issue to address is the complexity of the contract system currently being used. Changing contractual arrangements so that greater flexibility is enabled in the service delivery is the outcome to be sought. This involves less prescriptive clauses about how the service delivery agency undertakes service processes to achieve outcomes, less micro management by Government and streamlining reporting and accountability processes.

This Inquiry includes an investigation of outsourcing Housing provision. Taking Housing as an example, there has already been a large shift to transferring stock and provision of Social Housing to Non-Government Social Housing Providers. Currently, the NSW Government is considering moving Homelessness Policy into the Housing portfolio from the broader Community Services division of FaCS. Homelessness services, including the Specialist Homelessness Services are already effectively outsourced to the NFP non-Government sector. However, such a shift in where policy development is placed, and potentially to where contract management is placed, could impact negatively on the effectiveness of this outsourcing. Placing Homelessness into Housing foreshadows a shift in perspective to seeing Homelessness as primarily a Housing issue. Clearly accommodation / housing provision is a key component of addressing homelessness. So also, is addressing the wider social service

issues of mental health, drug and alcohol, living skills, access to employment and education, domestic / family violence, family breakdown, income insecurity and health issues. A response to homelessness that creates a split between accommodation provision (housing) and support services would be a clear example of creating barriers in service provision to providing flexible, holistic and effective solutions to a complex problem. For example, if contracts to Specialist Homelessness Services were for the provision of only accommodation, then the progress NSW has made towards good and integrated case management and holistic supports for homeless people would be stymied. The replacement of these roles with new contracts, potentially to other providers should a competitive process be implemented, would re-create the need for new networking, service integration and co-ordination mechanisms. There are costs associated with breaking up service systems in this manner.

This Inquiry needs to give a broad consideration to the issues of risk management and risk mitigation. Where Government/s outsource to the NFP non-Government sector they engage in a transfer of certain risks. An example is the transfer of housing properties to Social Housing Providers. The age of many of the properties being transferred means that the maintenance costs and suitability of some of the properties is an issue for the Social Housing Provider. Risks associated with the management of ageing assets are moved from Government to the non-Government sector. Similarly, the Lead Agency Model as discussed above transfers risks associated with contract management, quality controls and accountability to the Non-Government Lead Agency. It is not appropriate to shift identified risks (for which Government holds responsibility for mitigating) to the Non-Government sector without either addressing these risks prior to outsourcing or providing the resources to the Non-Government sector to enable proper risk management.

The Productivity Commission Report (2010:307) provides a clear summary of other impediments to the effective outsourcing to NFP non-Government agencies. The following is in relation to pressures for greater differentiation in service roles and mechanisms that reduce flexibility:

“..the trends identified have the potential to erode the comparative advantage of NFP’s to the extent that they lead to:

- NFPs moving away from their core purpose areas (or so called ‘mission drift’)
- NFPs taking on the characteristics and behaviours of the government agencies they are dealing with (‘isomorphism’)
- Increased differentiation and separation of stakeholder roles within NFPs and consequently weaker connections with the communities they serve
- The diminution of the advocacy role of NFPs
- A perception that NFPs are simply a delivery arm of government and not able to respond flexibly as needs change or opportunities arise
- Increased government influence over an NFP’s internal structure and decision-making about how to allocate and use resources and respond to client needs”.

6. Workforce issues

The major factor in the NFP Non-Government Community Services industry's ability to attract and retain staff has been the disparity in the wage structure between the NFP sector and public service employees. The recent decision by Fair Work Australia on pay rates for the Community Services industry will make a positive impact on workforce issues. It also means that Government contracts to non-Government providers must set a realistic 'purchase price' that recognises the payment of fair wages.

7. Conclusion:


In summary, we believe that the following are crucial considerations in this Inquiry:

1. That outsourcing to community services delivery is not seen as privatisation. That a purely market approach is not appropriate and that this is not a mechanism to open new markets to private, for profit business development.
2. The contracting arrangements and accountability processes applied still need major transformation. Government needs to remove duplication in reporting processes. Contracts need to allow for flexibility in service provision. Government micro-managing the processes NFPs utilise to achieve outcomes is contraindicated to effective consumer outcomes.
3. Competition should be approached with caution and only implemented where there are strong grounds and evidence that it is the appropriate model.
4. Service Delivery and Policy Development are intertwined processes. Participation in providing service delivery needs to be matched with mechanisms to participate in policy making.
5. Outsourcing to non-Government agencies with improved and flexible contract arrangements and reduction in red tape will free them up to concentrate more on service delivery, policy development / input and participating in finding solutions to community service issues.
6. Government contracts must set realistic 'purchase prices' for the services being outsourced. It is not acceptable to contract an agency to provide a community service then only pay for a proportion of the cost associated with providing the service. This would be unacceptable when Government enters a contract, for example, for the construction of a building!

7. We urge the Inquiry Committee to gather information on the volume and nature of Consultancy Agencies being contracted in a manner that steers or provides substantial input into the policy making process.
8. When increasing the outsourcing of community services, the Government needs to ensure that its processes encourage a diverse community services sector that includes small, specialist and local / regional providers.
9. It is appropriate for the Government to invest in the service system infrastructure, particularly in rural and regional areas. Sustainability of service providers is important to continuity of service provision to consumers. This investment would include establishing true costings of service delivery, including management, administration, office expenses, travel, staffing etc. Funding levels should reflect the true costs of purchasing services.
10. Selection processes for service deliverers should include weightings for criteria on local experience, knowledge and networks. These add value to the service provision.

Thank you for considering these issues. We look forward to further participation in the Inquiry and implementation of outsourcing of community service delivery.

Signed on behalf of the Board of Management, Southern Youth and Family Services by:



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Southern Youth and Family Services

