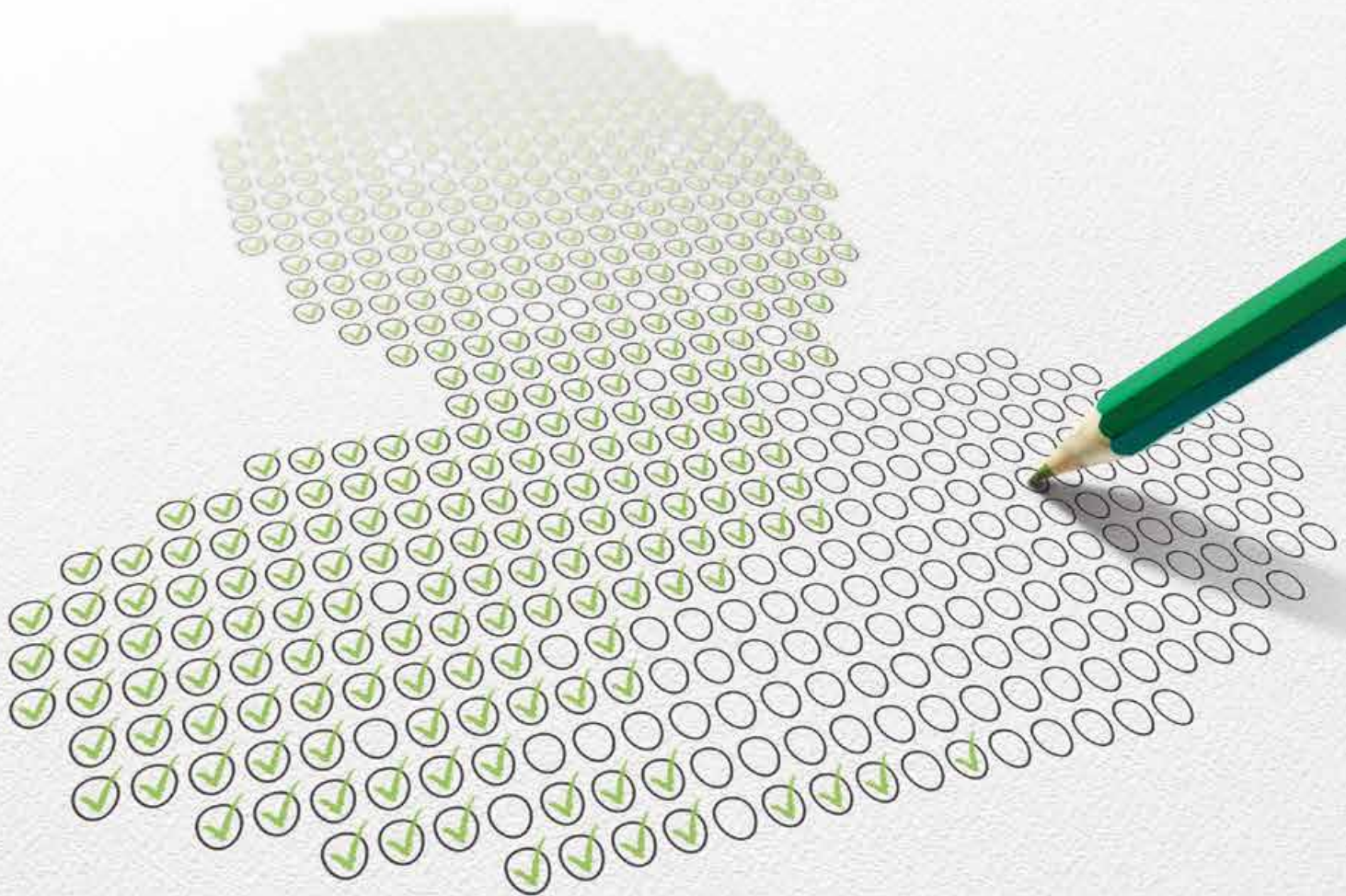




Contestability in Human Services

Committed to the right solution





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Introduction

The human services sector, with government policy and service delivery structure, is supported by over 7,500 not-for-profit and community organisations across Australia.

Built on a government policy and service delivery structure, the sector contributes \$25b annually to the Australian economy. It is supplemented by more than 320,000 volunteers who are central to the 580,000 strong not-for-profit human services workforce, as well as 3.5 million primary carers who provide support for the aged and people living with disability.

Increasing service delivery costs, coupled with the impact of an ageing population, means that adaptive changes of the past may not be sufficient to ensure ongoing financial sustainability of the sector. As a result, a more radical step-change is required to address the growing demand for, and scrutiny of, services.

It is too early for major Commonwealth reforms such as Living Longer Living Better (LLLBB) and the National Disability Insurance Scheme (NDIS) to have delivered significant structural change, but these important reforms do provide a window of opportunity for stronger action – before the full impact of increasing costs are felt.

To achieve genuine reform, the contestability process has been a key area focus across the sector; capitalising on trends in technology and new business models, to drive increased innovation and value for money for the community.

Governments are recognising how the human services contestability process needs to adapt and accommodate the informal capital contribution of volunteers and communities, and a new approach to service contracting is required in areas where the sector is less developed.

Recognising and adapting to the inherent tension between a market-based approach and the motivations of not-for-profit and other community organisations has been central to a number of success stories within the sector. However, more needs to be done

This paper explores how the different forms of contestability can be used to drive outcomes, in particular through use of payment by outcomes, such as Social Benefit Bonds. This paper explores the structure of the human services sector in Australia, the role of government in sector development, and what can be done to further develop the sector in remote and under-served areas.

Changes and emerging trends in technology and business models are changing how human services agencies are thinking about service delivery

Trend: Individualised funding and services

Human services agencies are re-evaluating how service delivery performance is measured – from, for example, ‘did we respond to 95% of our referrals within five days’, to now focus on gauging the impact of services on clients’ lives. Furthermore, rather than asking ‘how many services or benefits can I enrol this person in?’, caseworkers instead ask, ‘what is the goal for this individual or family, and which services or benefits would help them achieve that goal?’

By segmenting larger customer populations into sub-groups with similar characteristics, safety-net programs are tailored to the unique needs of each group, resulting in better outcomes. Rather than one-size-fits-all, caseworkers strive to understand individual needs and then provide the services and benefits most likely to help each person’s unique situation.

Trend: Community augmenting service delivery

Agencies are reinventing themselves by taking full advantage of the growing social services ecosystem, and tapping community assets, including citizens as volunteers, NGOs and community organisations. With retirees becoming increasingly involved in volunteer work, there is a growing pool of people keen to help strengthen the social safety net. New ways of harnessing value and managing volunteer networks will be required, for example through innovative time bank platforms such as ‘CareBank’.

New peer-to-peer social support models are also emerging that balance agency support with client choice while strengthening social networks. The Australian ‘Family to Family’ program, for example, pairs struggling families with peer families that have been through tough experiences such as spiralling debt, sick children or addiction, and overcome these difficulties.

Trend: Technology changes how workers are developed and operate across the sector

Artificial intelligence and simulation-based training will play an increasingly important role in preparing case workers to handle difficult situations. Serious ‘games’ such as those developed by the Centre for Child Protection at the University of Kent in the UK, provide a safe medium for professionals to explore and assess child protection situations.

Customer and geospatial analytics can enable better understanding of impact and be used to predict client needs. ‘Big data’ can enable child welfare workers, judges and others involved in interventions to ask meaningful questions and understand underlying factors at play in neighbourhoods and broader communities.

Case workers are now able to connect more frequently with clients using free videoconferencing software, which is also creating new opportunities for contact with people and communities in remote areas.

Trend: Remote monitoring, wearable devices and smart homes

Wearable mobile health devices detect changes in biometrics and can predict if wearers are likely to engage in risky behaviours, enabling delivery of, for example, personalised multimedia drug interventions in real time, and alerting case workers when in-person interventions are required.

Affordability of smart home technology enables sensor-based reporting on signs of illness or cognitive degeneration, creating options for senior citizens to remain in their homes and maintain independence.

Managing risk and driving innovation

To capitalise on trends, governments need to take note of lessons learnt from recent reforms and **adopt more sophisticated approaches to managing risk**

In striving for an aspirational future and encouraging new innovations across the sector, human services agencies have used different forms of contestability to embrace not-for-profits and community organisations as central components of the service delivery network.

And the sector has responded positively to this. There is little doubt that contestability has resulted in different delivery models that improve outcomes for users, as well as a more strategic outlook among government agencies, a rationalisation of services and an increase in the professionalisation of management teams across providers. Cost-savings have been realised through a reduction in dependence on government services. In well-contested markets, governments have successfully exited service delivery entirely, such as with aged care.

However there have been, and still are, challenges in the way government service delivery is procured and contracted.

In many cases direct procurement, grant funding and outsourcing have proven suitable where services are commoditised and can be readily source, or where the procurement is clearly aligned with the motivations of not-for-profit or community organisations.

Behaviours that have led to procurement failures – where desired outcomes have not been achieved – include government unbundling offerings, demanding excessive reporting, or being too rigid in prescribing services. Government having too much control over the operation and decision making of providers is also a common factor that has undermined the intention of innovative partnerships.

This is particularly apparent in cases where government has undertaken traditional procurement directly with smaller not-for-profits, where autonomy, innovation and advocacy functions are diminished by a more powerful contracting counter-party.

There is also anecdotal evidence indicating that the sector as a whole has taken on significant additional costs associated with service contracting, and to some extent that this has had an impact on service delivery. Going forward, efforts need to be made to ensure tendering approaches can be tailored so that compliance is proportionate to contract values and risks.

Private sector operators are ultimately economic rationalists. To avoid private operators ‘walking’ when unforeseen risks materialise and erode margins, there is a need to manage through relationship, rather than taking a literal approach to the service contracts.

Recognising that things will go wrong is important. The sector is dealing with people whose lives are unpredictable and who may have impaired judgement. They can be risk takers, either intentionally or not.

Both government and providers alike need to adopt more sophisticated approaches to managing risk by:

- Sharing risk appropriately so that cost isn’t inflated through hidden contingency
- Avoiding risk aversion that stifles innovation
- Ensuring risk isn’t inappropriately pushed onto not-for-profit volunteer boards which may force valuable providers to exit the market.

New models of operation and market engagement are now required and public sector leadership needs to foster creation of environments where government agencies and public servants can have more risk appetite, can reduce complexity in operational policies, and can work with greater flexibility than there is today.

A real mindset shift is now required, and it needs to be recognised that the kind of rigour that was applied to capital through Public Private Partnerships must now be applied to *service delivery*.

This involves a combination of sophisticated thinking about procurement design, a focus on data, and sophisticated partnering arrangements that combine good contracting with ongoing interaction and shared knowledge over the life of each project.

Driving service delivery outcomes

The role of government in human services has changed, from being purchaser to being a long term outcomes manager. The use of more sophisticated forms of contestability is taking centre stage to help deal with society's most challenging problems

It needs to be recognised that the kind of rigour that was applied to capital through Public Private Partnerships must now be applied to service delivery. This involves, a combination of sophisticated thinking about procurement design, a focus on data, and sophisticated partnering arrangements that combine good contracting with ongoing interaction and shared knowledge over the life of each project.

New market engagement models such as Payment by Outcomes (PbOs) and Social Impact Bonds (SIBs) or Social Benefit Bonds (SBBs) are enabling this change and offer governments more flexibility to achieve outcomes in complex areas.

PbOs can be used to drive performance with service providers used between government departments. The results-based funding arrangements differ from traditional procurement in that payments are linked to independently verified results, rather than inputs or outputs. Payments are calculated as a function of government cost savings that are attributed to the program's success.

Through these mechanisms government does not pay for legislated strategies, but for results. Bonds guarantee long-term funding which is frequently a stumbling block for not-for-profits, while the risk is shared among government (which pays for the outcome), investors (who put up the money to achieve the outcome), and providers (who deliver the outcome).

SIBs also provide a degree of insulation between changes in political agendas and policies and service delivery priorities to give providers with a long term view and appropriate room to operate and innovate.

In the short term these innovative funding mechanisms will supplement current approaches to contracting. However there will be an ongoing need to get all contestability approaches operating better – that is, rigorous about specification and measurement for both performance, and relationship based.

To establish the right incentives, focus is required to identify what should be measured, and what can be measured. Results need to be very clearly articulated and it needs to be recognised that outcomes change for participants over time with short-term goals transforming over time to long term outcomes.

As real outcome timeframes conflict with both political and policy maker timetables, measures need to be diverse enough to include the inherent communication needs of government.

Agreeing the right outcomes, appropriate measures, and realistic timescales is a central component in setting up successful, results-based funding mechanisms.

Results-based funding

Results-based funding and contestability models are gaining a foothold in human services across Australia and other parts of the world

New South Wales

UnitingCare Burnside's New Parent and Infant Network (Newpin) program has a SBB designed to restore children in foster care to their families and prevent at-risk children from entering care. So far the bond has returned 7.5% to investors in the first year.

The Benevolent Society's \$10m SBS is an intensive family support program designed to keep children with their families.

Victoria

Go Goldfields is a geographic approach to PbO, with \$2.5m provided by the Victorian Government funding to develop community-driven approaches to improve social, education and health outcomes for children, youth and families.

The Victorian Government has driven contestability through commissioning 27 community organisations to deliver drug and alcohol treatment and support services, with 83 providers participating, most through consortia arrangements. This is interesting as it has established an effective framework to drive collaboration between providers delivering the services.

United Kingdom

The first PbO trial in the UK was developed by Social Finance UK in conjunction with the UK Ministry of Justice at Peterborough Prison in 2010 targeted at recidivism. There are now 14 SIBs in development or in operation in the UK.

The Troubled families program; Essex SIB (vulnerable children); Rough Sleepers SIB and the DWP work program are other examples of outcomes based funding currently active in the UK.

United States

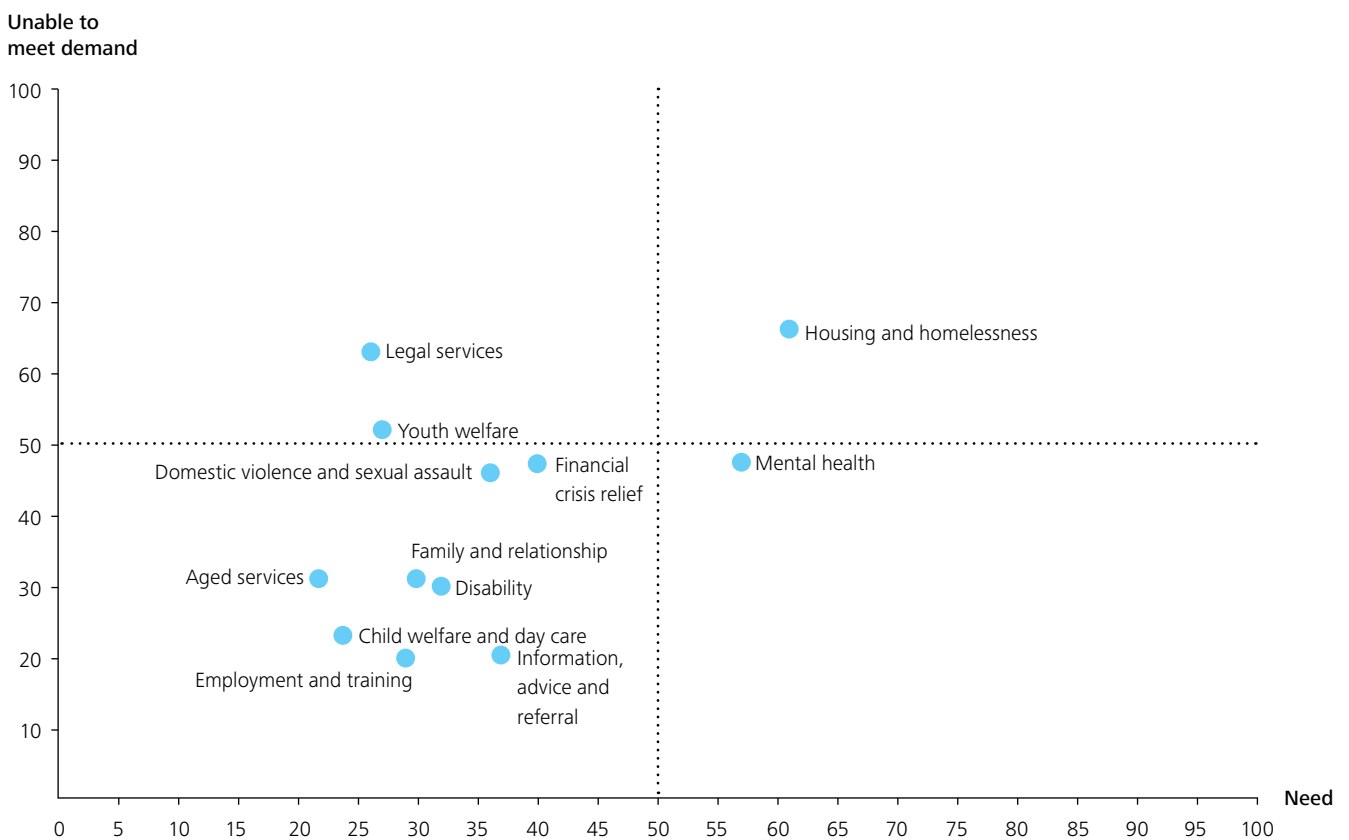
Several SIBs have been established to target reductions in recidivism. the bond payouts are based on the actual and projected cost savings associated with reductions in repeat offences. For example, in the case of the Rikers Island Prison SIB, those realised by the New York City Department of Correction as a result of the decrease in undesirable behaviours of repeat offenders.

Sector development

Housing and homelessness, legal services and youth welfare services are where there is the greatest gap between supply and demand

Demand for human services

Services unable to meet demand vs. services most in need (2013)



Source: Australian Community Sector Survey 2013; Deloitte analysis

Where service coverage or more competition is sought, specific market interventions may be needed – designed through an understanding of the data and economics of each market

There are still sector areas that are not sufficiently supplied, either by service, geography, or client group.

Our analysis shows that housing and homelessness, legal services and youth welfare services are where there is the greatest gap between supply and demand. Furthermore, we believe that reforms which individualise funding – such as the NDIS – will stimulate latent demand as participants explore new potential, and will further expose gaps in coverage across the sector.

Developing capacity in the sector is one of the most challenging areas for government, as service delivery responsibility is increasingly handed over

When there is not enough interest from the sector to provide a service, to serve a geography or a high risk client group, or to challenge a monopoly, then government needs to attract more providers through specific incentives.

Market interventions need to be designed after evaluation of data – to understand the economics and effectively offset cost, risk or capital return.

Where the government is seeking to attract competition into asset-based services, a spectrum of options are available, from provision of information through to guarantees, which can attract more market interest and increase value.

Different contract mechanisms are also available, such as management contracts (with longer term equity options following achievement of key success criteria). Sharing risk through joint ventures and partial-privatisations are other alternatives.

Of the more than 40,000 charities registered with the Australian Charities for Not-for-profits Commission (ACNC), 7,500 were focused on the provision of human services – the majority focused on serving the aged, children, and people with disabilities.

Looking at the distribution of providers across the country, Queensland and the Northern Territory have the fewest providers per capita, while Tasmania enjoys the highest ratio of provider to population.

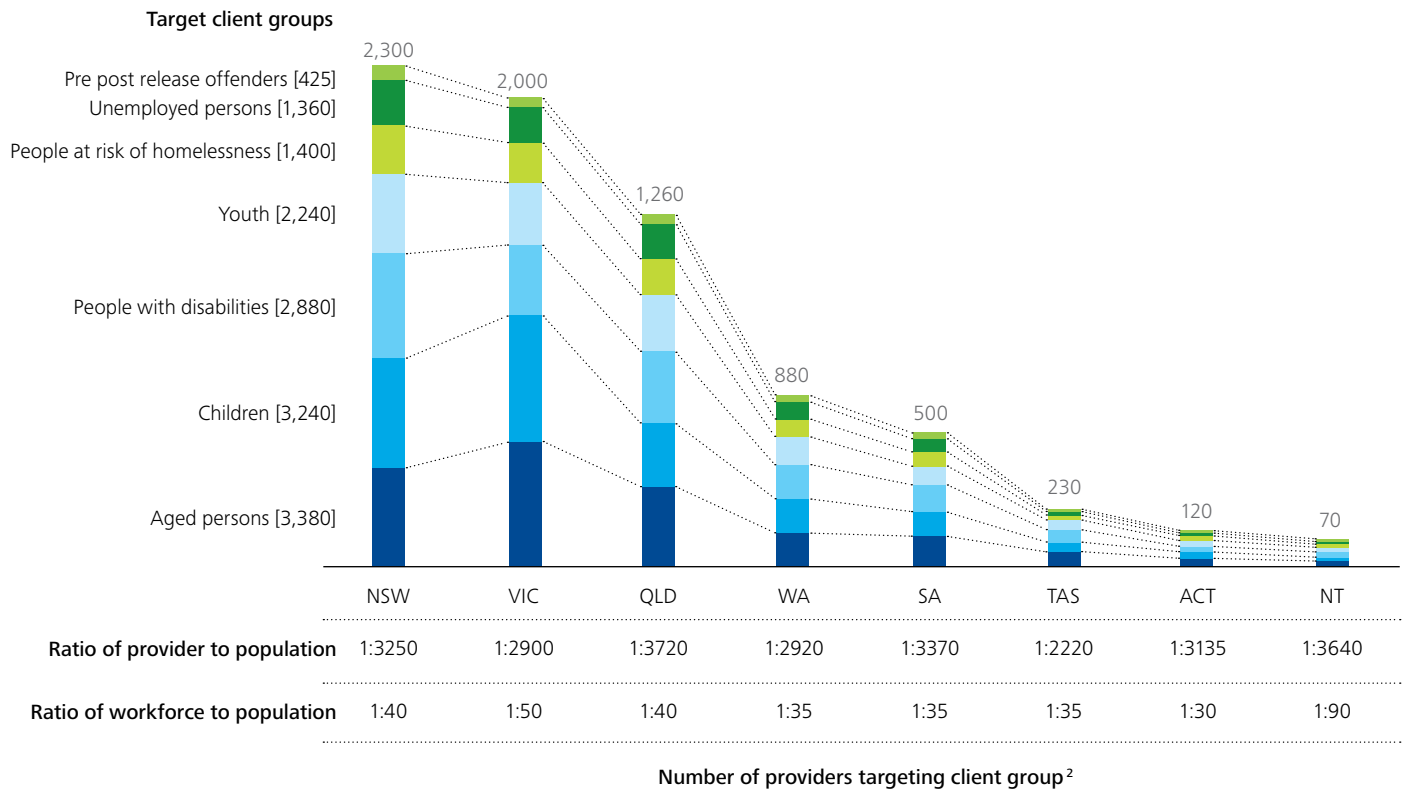
Full-time, part-time and volunteer workers are at their greatest concentration in the ACT, where there is approximately one sector worker per 30 citizens. In the Northern Territory, on the other hand, there is only one sector worker per 90 citizens¹. The median ratio across Australia is 1:38.

Queensland and the Northern Territory have the fewest providers per capita, while Tasmania enjoys the highest ratio of provider per capita; most providers are focused on serving aged persons, children, and people with disabilities.

¹ Including sector worker volunteers and excluding primary carer volunteers.

Human services supply (ACNC registered providers only)

Number of providers by customer segment, by state and territory²



² Numbers do not sum due rounding and operators providing services across multiple categories; approximately 200 providers operate nationally

Note: Does not include 20,000 small charities not registered with the ACNC

Source: Australian Charities and Not-for-profit Commission 2013; Deloitte analysis

The human services is currently pre-competitive and the market will not drive innovation, quality and price competition unless they are designed into the model. On these terms, the question for government is ‘how do we best encourage innovation born from competition?’

In broad terms, there is a clear role for government in fostering development of the sector by deploying policy instruments that ensure the availability of human capital, opportunities for cost advantage, market transparency, and sustained demand. There is also an opportunity for agencies to make available data public, to assist providers in designing service improvements and enabling better organisational development across the sector.

Strategic capacity needs to be developed with the right management and governance capabilities in providers to lead organisations through a changing market with revenue uncertainty.

Of the 7,500 registered human services providers, only 620 operate in more than one state or territory, and only 200 operate nationally. Less than half of the 580,000 workforce (250,000 workers) are employed on a full- or part-time basis in organisations generating over \$1m in annual revenue.

Smaller organisations do not necessarily equate with innovation, and many will face challenges in developing governance and management appropriate for the future market. With over 60% (4,500) of providers operating with revenues under \$250,000 per annum³, significant consolidation in the sector is inevitable as funding models change. This doesn’t mean small not-for-profits will fail, or be forced to merge but alliance partnerships are viable, and inevitable, with the right risk oversight.

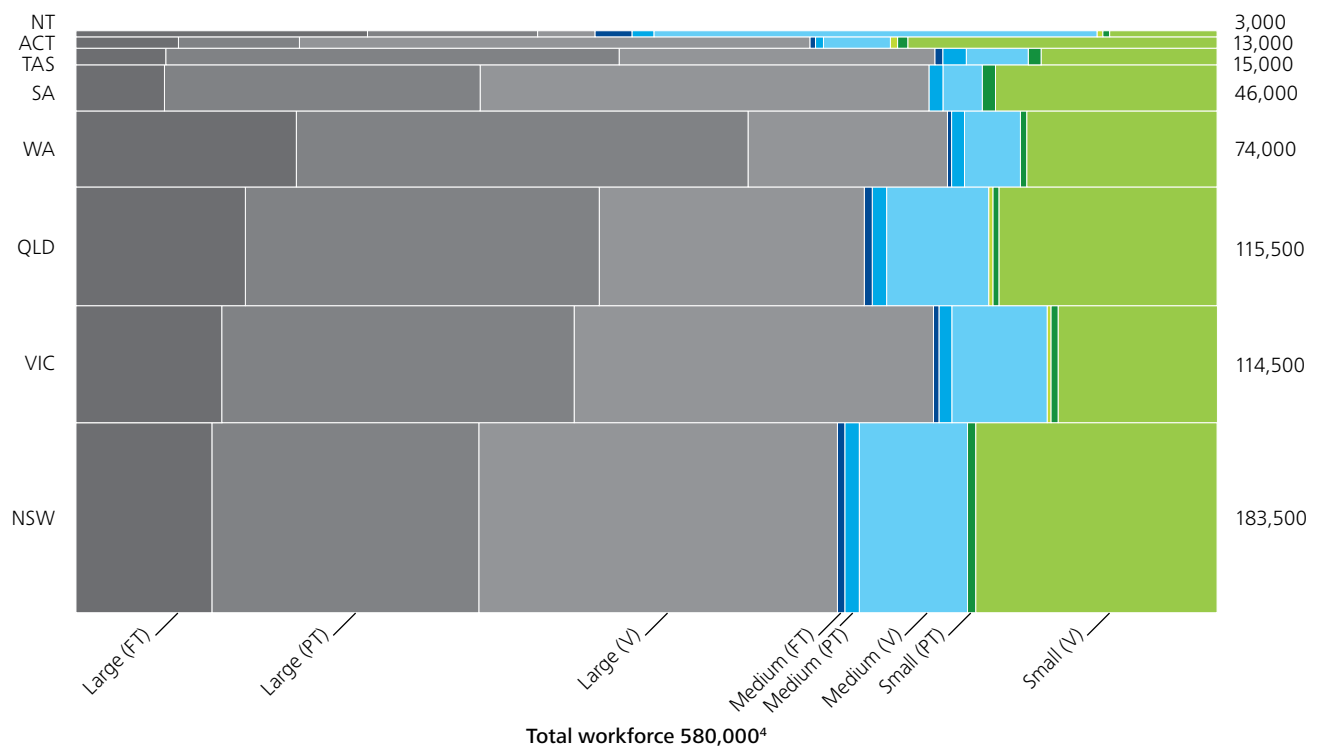
Furthermore, some 320,000 volunteers form the bulk of the workforce and small organisations are heavily reliant on their involvement. There are increasing attempts to value the contribution of these volunteers, which has implications for government and the sector itself in-terms of how productivity and economic value are considered when it comes to government decision-making. Volunteers should be considered an added benefit in service provision, and should not bare structural risk across the sector.

There is also a clear need for transparency of information on provider service quality, and government should be investing in market monitoring and performance insight capabilities. Most importantly, information needs to be made available to clients, as well as investors where SIBs/PbOs are deployed.

Driving creation of the rules of competition against which the market operates is a priority for government – seeking to be less burdensome on providers – and that a realistic timeframe is needed to achieve meaningful outcomes before further interventions are made.

Australian human services not-for-profit workforce structure

By number of full-time, part-time and volunteer workers per state and territory



Large >\$1M, Medium \$250k – \$1m, Small <\$250k

⁴ Includes full-time, part-time and volunteer workers, numbers may not sum due to rounding
 Note: Does not include 20,000 small charities not registered with the ACNC
 Source: Australian Charities and Not-for-profit Commission 2013; Deloitte analysis

Conclusion

Key trends in technology and business models are changing how human services agencies are operating and **contestability is widely recognised as a value creation process that can be used to transform service delivery**

From our experience working with human services agencies at both Federal and state levels, as well as with providers, we understand the complexity and challenges facing those leading and implementing reforms across the sector.

While significant progress has been made, and challenges remain ahead, a collaborative approach to finding new and better solutions to some of Australian society's most complex challenges can deliver real and lasting dividends.

New models of operation and market engagement are required and public sector leadership needs to foster the creation of environments where the public service can grow its risk appetite, reduce complexity in operational policies, and work with greater flexibility than it does today.

Key points to be considered include:

- While capitalising on emerging trends, governments need to take note of lessons learnt from recent reforms. For example, both government and providers need to have more sophisticated approaches to managing risk and accountability
- As the role of government changes – from purchaser to long term outcomes manager – more sophisticated forms of contestability are emerging and new capabilities are required in the public sector to implement these effectively
- New market engagement models, such as PbO and SIBs are enabling this change, and offer governments more flexibility to achieve outcomes in complex areas. These models are gaining wider acceptance throughout the world

- To drive successful outcomes, identifying how results should be measured, and what can be measured, should become a key focus. Agreeing the right outcomes, appropriate measures, and realistic timeframes is critical in setting up successful results-based funding mechanisms
- Significant consolidation in the sector is inevitable as funding models change. Where more competition is sought, specific market interventions may be needed and should be designed through an understanding of the data and economics of each market
- As service delivery responsibility is handed over, from government to not-for-profits and the private sector, developing strategic capacity in the sector is an increasingly challenging area as not-for-profit management teams grapple with new levels of uncertainty in funding and higher levels of competition.

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