Sustainable Funding and Contracting with the Not for Profit Sector initiative and associated procurement reforms

2012 Evaluation

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## Abbreviations

**Western Australian Government Agencies**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Abbreviation</th>
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<tbody>
<tr>
<td>Department for Child Protection</td>
<td>DCP</td>
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<td>Department for Communities</td>
<td>Communities</td>
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<td>Department of Commerce</td>
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<td>Department of Corrective Services</td>
<td>DCS</td>
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<td>Department of Education</td>
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<td>Department of Finance</td>
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<td>Department of Health</td>
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<td>Housing Authority</td>
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<td>Department of Indigenous Affairs</td>
<td>DIA</td>
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<td>Department of Local Government</td>
<td>DLG</td>
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<td>Department of the Attorney General</td>
<td>DOTAG</td>
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<td>Department of Training and Workforce Development</td>
<td>DTWD</td>
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<td>Department of Treasury</td>
<td>Treasury</td>
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<td>Disability Services Commission</td>
<td>DSC</td>
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<td>Drug and Alcohol Office</td>
<td>DAO</td>
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<tr>
<td>Legal Aid Commission of Western Australia</td>
<td>LACWA</td>
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<tr>
<td>Mental Health Commission</td>
<td>MHC</td>
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<td>Western Australia Police</td>
<td>WAPOL</td>
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**Other**

<table>
<thead>
<tr>
<th>Term</th>
<th>Abbreviation</th>
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<tr>
<td>The Delivering Community Services in Partnership Policy</td>
<td>DCSP Policy</td>
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<tr>
<td>Full Time Equivalent</td>
<td>FTE</td>
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<tr>
<td>Not For Profit</td>
<td>NFP</td>
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<tr>
<td>Sustainable Funding and Contracting with the Not for Profit Sector</td>
<td>SFCNFP</td>
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Executive summary

This report presents the results of the first evaluation of the Sustainable Funding and Contracting with the Not for Profit (NFP) Sector (SFCNFP) initiative and related reforms. It includes the findings from:

- An analysis of data related to service agreements with the NFP sector for the provision of community services;
- Research involving the NFP organisations contracted to provide these community services; and
- Research involving the seven Western Australian Government (Government) agencies responsible for managing over 90% of the funding allocated to purchase community services.

Overall, the evaluation found strong support from both the NFP sector and Government agencies for the SFCNFP initiative and procurement reforms. It also found that the NFP sector and agencies have invested significantly in staff and systems to enable them to implement change.

There is also strong support from both sectors for focussing contract design and management on defining outcomes for citizens and pricing contracts to reflect the true cost of service delivery. Further, there is evidence that this focus is leading to fresh thinking and new service design. However, NFPs and agencies are finding it challenging to define service outcomes in a way that can form part of contract specifications and be overtly measured.

The results of this study provided insight into the significant diversity in community services, the NFP organisations that provide them and the agencies that purchase them. Achieving on-going change, and ultimately better services for the community, will be dependent on the extent to which outcome goals can be articulated clearly and individually for each of the 994 or so contracts between the Government and the NFP sector. As many contracts are to be renewed in 2013, it is likely that there will be a need for practical, perhaps sometimes individualised support to ensure that the intent of procurement reform is fully realised.

Findings from the survey of the NFP sector:

- About 73% of the Component I price increase was allocated to staff salaries and benefits.
- Compared with this time last year (November 2011):
  - 72% of respondents believe their organisation is now in a stronger or much stronger position to meet its mission.
  - Half of the NFP organisations have the same number of staff and 41% have more staff.
  - Staff satisfaction, skills, experience and retention have improved marginally.
  - The time taken to fill staff vacancies is about the same.
  - Overall, quality of service, range of services and number of people served appear to have improved.
• Awareness of the Delivering Community Services in Partnership (DCSP) Policy is high and respondents rated their knowledge of the policy as being between ‘fair’ and ‘very good’.

• The amount of time to prepare a tender submission is highly varied. The average was 15 days and there is an expectation that DCSP Policy will increase procurement and contract administration work but with a focus on outcomes rather than outputs as being a positive.

• When asked about the impact of DCSP Policy on services to end users, a large number of respondents answered ‘don’t know’. Feedback suggests it maybe too early for respondents to form an assessment.

Findings from interviews with Government agencies

Agencies strongly support the DCSP Policy and many believe that the changes are in-line with their agency culture. They have invested significantly in staff training and development to implement the changes required.

Agencies’ administrative work for contract specification, tender negotiations and management has increased and is expected to increase further. However the additional work is related to such elements as specifying outcomes and is considered worthwhile as it encourages better service design and promotes a focus on services for end users.

Agencies support creating a more consistent approach to procurement but made comments about the complexity of the new templates and requested that they be engaged further in any future revisions or testing of documents.

The databases used for procurement or contract management are mostly individualised and varied from agency to agency. They do not include consolidated data on performance against contract and therefore limit capacity to undertake a collective evaluation of overall performance against outcomes.

The results of this research combined with the anecdotal responses identified throughout this evaluation indicate that the implementation process has been challenging but has been approached in good faith. Both sectors attach a high value to the prospective outcomes associated with the move to the new policy. The ongoing implementation into 2013 is likely to be equally challenging. The maintenance of service quality and focus around service delivery will be extremely important in ensuring the outcomes of the DCSP Policy are achieved and benefit the community.
Introduction

Background

In the 2011-12 State Budget, the Western Australian Government allocated additional funding of $600 million over four years to contracts with the Not For Profit Sector for the delivery of community services. This additional funding is being rolled-out in two tranches called Component I and Component II. Component I consisted of a 15% increase in payments for 994 eligible contracts held by 495 Not for Profit (NFP) organisations and commenced during 2011/12. Payment of Component II, equivalent to a 10% increase for eligible contracts, will commence in 2014-15 and be applied as contracts with NFP organisations are reviewed. Payment of Component II will be linked to the implementation of contracting reforms.

As part of its implementation process, the Western Australian Government (the Government) required an evaluation framework to be developed to monitor and evaluate the outcomes of the Sustainable Funding and Contracting with the NFP Sector (SFCNFP) initiative and associated procurement reforms over the first five years of its implementation commencing in 2012.

The Partnership Forum (a group comprising senior NFP sector representatives and CEOs of State Government agencies) recommended to Government an initial evaluation framework for assessing the impact of the reforms. A working group of the Partnership Forum; The Partnership Forum’s Implementation Working Group – Sub Group (the Working Group) was tasked with determining the approach required to successfully implement the framework and monitor its effectiveness.

Curtin University’s School of Accounting was appointed to apply the framework and to undertake the evaluation annually for the five years from 2012. This report presents the findings from the evaluation and constitutes the base line data results for ongoing comparison. It also provides a number of observations for consideration in developing the structure and approach to the subsequent evaluations.

Approach

Research to implement the evaluation framework comprised three key tasks:

1. The collection and analysis of data provided by the Department of Treasury (Treasury) related to the population of agencies, contracts and contracted NFP organisations. This data was used to inform the subsequent research methodology and is summarised below as it provides context for the findings.

2. A survey of NFP organisations that hold contracts for the provision of community services and that received Component I price increases. Of the 431 NFP organisations in the population, 181 participated in the survey.

3. The undertaking of structured face-to-face interviews with representatives from the key seven Government agencies.

The research approach is described in more detail in Appendix 1.
The purchasing relationships between the NFP Sector and Government

Analysis of contract data

Government purchasing from the Not for Profits sector is concentrated in seven State Government agencies that account for 94% of contracts (by value). Of the 495 NFP organisations working with the State Government, 431 (87%) contract with these seven agencies.

Data provided by Treasury related to the recipients of Component I price increases shows that in 2011/12 there were 495 NFP organisations contracted to provide community services. These organisations hold a total of 994 contracts with 16 State Government agencies. One third of NFPs hold more than one contract with a State Government agency.

Further analysis of the distribution of these contracts showed that:

- Seven out of the 16 State Government agencies (agencies) accounted for 93.6% or $568m of annual contract funding and 87.4% or 869 of the 994 individual contracts. The Disability Services Commission accounts for 54% of all contract funding. Contracts with the Department of Health represent 12.5% of funding.
- Contracts with these seven agencies were for 431 out of 495 NFP organisation.

Of the 994 contracts, 36 or 3.6% account for 45% of total funding. The average contract value varies significantly between agencies.
The profile of NFP organisations

In order to provide the context in which to interpret the findings of this research, this section begins with a summary of the characteristics of the 181 organisations that responded to the survey. It is important for readers to note that there is no reliable data identifying key information such as the total income, employment statistics or sector of operations of NFP organisations contracting with Government. As such, as not all organisations responded to the survey discussed here it is not possible to determine the extent to which these 181 or 43% of organisations are fully representative of organisations contracting with the seven key agencies\(^1\). However, the sample shows significant diversity in turnover, employment, location of service delivery and service types.

Size

Over half (58%) of NFP organisations are micro or small.

Nearly one in three or 30% of the NFPs have less than 4 Full Time Equivalent (FTE) employees and an annual income of $250,000 or less. A further 29% have between 5 and 20 FTE and have an annual income below $2m. Interestingly, this reflects Disability Service Commission data that shows that about 46% of their funded organisations had a turnover of less than $2m in 2010/11.

The sample includes 25 NFPs with an annual income of over $10m. Many of these are national organisations and the component of income sourced from the Western Australian Government is unknown but would, of course, be somewhat less. (It also appears that some organisations may have over-stated their income.) This is subject to further review.

For comparison, about 41% of general commercial contracts are awarded to small firms (those with less than 20 employees)\(^2\).

The relatively small size of these NFPs has implications for the organisations’ capacity to implement change, and accommodate administrative requirements and staff turnover.

\(^1\) Survey results based on self-selection include a response bias and typically reflect the views of the respondents most motivated to respond. Motivations can be linked to having a strong positive or negative attitude to the subject matter, survey sponsor or other factors. Nonresponse can be the result of a negative attitude to the subject matter, the sponsor or the survey methodology.

Service sectors and location

The sample includes organisations from a wide spectrum of community service sectors. It also includes those operating in regional and remote locations.

The organisations in the sample offer services mostly in the areas of: family and relationship (43%); disability (43%); mental health (31%); indigenous support (28%); housing/homelessness (26%); and health (26%). This sample includes comparatively few organisations offering aged care, other residential or legal services but this may be reflective of the service types of the funded sector.

About half of respondent organisations’ operations are located in the Perth metropolitan area and 37% in regional areas, including the Peel, South West, Great Southern, Goldfields/Eesperance, Wheatbelt, Midwest and/or Gascoyne land divisions while 14% of services were delivered in the remote Pilbara and/or Kimberley.
Source of income

The responding NFP organisations are heavily dependent on the State Government for funding. Just over one third rely on the state government for 80% or more of their funding.

35% of organisations received between 80% and 100% of their 2011/12 total income from the State Government.

Those organisations receiving income from other sources received an average of 17% of their income from the Commonwealth Government. The source of income varies across different sectors of operation and sizes of organisations.

Source of income 2011/12 n:181

The extent to which organisations rely on State Government purchasing can have implications on the degree to which they are affected by changes in funding or procurement policy. It can also influence their motivation to respond to the survey itself and the responses given. Additionally, the extent to which such organisations have been engaged with the implementation process surrounding the adoption of the DCSP Policy may be affected by the extent to which the State Government is a significant partner of the NFP.
Contracting with the State Government

The total number of contracts held by these NFP organisations with State Government agencies was reported as 795 of which 543 were established between government and NFPs that hold Preferred Service Provider status. However, it appears that a few respondents also counted individual service agreements as separate contracts (despite instructions to exclude these) therefore over stating the total number of contracts held by this sample by about 100 contracts. This suggests that consideration should also be given to nomenclature so that all parties describe the head agreements and individual service contracts correctly in future evaluations. The results also confirmed that most contracting was undertaken with the Disability Service Commission, the Department for Child Protection and the Department of Health.

The ratio of contracts established under Preferred Service Provider status varies considerably across the agencies. 80% of Disability Service Commission contracts are said to be established on this basis compared to 53% for contracts with the Mental Health Commission.
Response to the Component I price increase

Application of funds

73% of the 15% (Component I) price increase was allocated to staff salaries or staff benefits.

On average, respondents reported that nearly three quarters of the income received through Component I was allocated to salaries. An average of 6% was allocated to staff training and the same proportion allocated to the purchase of services.

It is important to note that the ‘other category’ also included employment related expenditure such as ‘employed another [staff member] for 8 hours a week’ and ‘developed new service options in remote areas’. These applications of Component I funds would have also included a significant proportion of salary expenses.

Most NFPs (79%) that received the price increases began to receive the 15% price increase by December 2011 with the remaining 20% receiving the additional income by June 2012.

Although the sample included only those organisations identified by agencies as having received Component I funding, 12% of the sample stated they did not, or didn’t know if they had received the price increase.
Impact on service

The majority of comments describing the impact of Component I funding on service delivery were positive.

Respondents were invited to comment on whether the 15% price increase had an impact on their organisation’s provision of service. This was an optional question and responses were received form just over half of respondents - that is 90 out of 159 NFPs that stated they received the price increase. The information they provided cannot be used as a measure of the overall level of satisfaction, but does provide an indication of the range of opinions held by NFPs.

For ease of review, the comments received have been reported here as either Positive, Mixed or ‘Negative/No impact’ statements. About 80% of comments were positive, 10% were mixed and a further 10% were negative or the respondent said the price increase had no impact.

Positive comments (80%)
As the majority of additional funding was allocated to staff salaries, the positive comments predominantly related to improved salaries and conditions and/or expanded employment. Other comments related to an improved capacity to meet rising costs.

“Absolutely [had an impact]. Staff retention was achieved which allowed us to continue with all services under which we are funded.”

“Allowed for more flexible service delivery through staff being able to be on call overnight and on weekends when dealing with [case type] cases.”

“We were able to increase the support staff wages and increase the training available to staff.”

“Helped [us to] be more sustainable and able to increase wages to a more reasonable rate; especially in light of the Annual Wage Review”.

“Increased long term commitment by staff.”

“It had a massive impact. It has enabled us to increase salaries and make us competitive and reward staff for on-going commitment. Has enabled us to put in S corporate positions, IT communications, marketing, quality and HR and admin position.

Mixed and negative/no impact comments (20%)
The mixed and negative comments spoke mostly about the additional income ‘closing a gap’ or bringing income back to, in the respondent’s opinion, par for the service need. Some also commented that the amount of additional money was not sufficient to make a difference.

“Allowed us to prepare for and assist in the introduction of the pay equity decision and assist our agency with the changes that resulted from the shift to a Federal Industrial system. In addition, a proportion of the 15% was and is being applied to sustain the organisation in areas such as making provision for depreciation, longer term staff cost provisions and giving the organisation an opportunity to reduce the gap between actual cost increases and annual indexation adjustments made over the preceding years.’

“Long overdue.”

‘It was too small to have any impact.’

“The 15% increase improved the conditions for staff employed in a 100% state funded service, however it caused some discontent for staff employed in the same Organisation in a service funded 50/50 state and commonwealth.”

Specifically, the question asked ‘If the 15% price increase had an impact on your organisation’s provision of service, please comment’.
Sector Employment

A series of questions were asked which sought to assess changes in employment numbers, vacancy rates, time taken to fill vacancies and the employment outlook. Some of this data is intended to provide a measure of the current situation and will be a starting point for the longitudinal evaluation in subsequent years. The data will not necessarily be particularly meaningful until results are collected in following years.

Total employment

The total number of personnel employed by the respondent organisations is estimated to be in the range of 4,300 to 5,000. While just over half of the sample comprised of small organisations employing less than 20 staff.

Changes in staff levels

Overall employment in the sector has grown since November 2011.

About half of the NFP organisations have the same number of employees as at 1 November 2012 as they did at 1 November 2011. However, 42% of respondents stated that they have a few more or a lot more employees.

Total staff numbers, vacancy times and vacancy rates were collected and will be tracked in subsequent annual evaluations.
Staff vacancies

Just over half of the NFP organisations reported they had no vacancies at 1 November 2012 - a further 24% had one or two vacancies.

There were six organisations that reported a high level of vacancies (300, 200, 70, 30, 18 and 15). These large estimates are being examined further.

<table>
<thead>
<tr>
<th>Estimated average time taken to fill vacancy</th>
<th>n:161 std dev:1.2</th>
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<tr>
<td>Less than one week</td>
<td>5%</td>
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<tr>
<td>1 to 2 weeks</td>
<td>9%</td>
</tr>
<tr>
<td>3 to 4 weeks</td>
<td>32%</td>
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<tr>
<td>5 to 8 weeks</td>
<td>31%</td>
</tr>
<tr>
<td>9 to 12 weeks</td>
<td>17%</td>
</tr>
<tr>
<td>More than 12 weeks</td>
<td>6%</td>
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Time to fill vacancies

The average time to fill a vacancy was about 4 to 5 weeks.

Over the last year, the average time taken to fill a vacancy was about 4 to 5 weeks. However, it appears that there may be some hard to fill posts as 24% of respondents reported taking over 9 weeks to fill a position. One third of the more difficult to fill positions are taking longer than 12 weeks to fill.
The current employment environment and staff capacity

The employment situation has improved since November 2011.

Most respondents reported that their staffing situation is better now than compared with November 2011. They believe that their ‘Employee’s satisfaction (other than salaries and benefits)’ and ‘overall staff skills and experience’ have improved the most, but there have also been improvements in staff satisfaction with salaries and benefits and the quality of employee candidates.

Changes to service to end-users since 2011

Most respondents believe service quality, range and number of people served has improved since November 2011.

On a scale from ‘much worse’ (-5) to ‘much better’ (+5), respondents answered, on average, that their services were better on all three attributes of quality, range and the number of people served. The average rating for change in the quality of service was +1.78 and for the number of people served + 1.73 (out of 5).
Sector Capacity

NFPs current and expected capacity to meet their mission

About three quarters of respondents believe their organisation’s capacity to meet its mission is stronger now than at this time last year and is expected to be stronger still by the end of 2013.

Respondents were asked if their organisation is in a weaker or stronger position to meet its mission or purpose than it was at this time last year. They were also asked if they expected their organisation to be in a weaker or stronger position by November next year compared to November this year.

The results show that

- 22% stated there has been no change in their organisation’s position
- 72% stated that their organisation is now in a stronger or much stronger position to meet its mission or purpose.
- 19% forecast no change in their position by November 2013.
- 77% believe their organisation will be in a stronger position by November 2013.

NFPs capacity in specific areas

NFPs overall average rating of their capacity in specific areas was between adequate and strong.

However, a third or more of CEO’s rated their organisation’s capacity as weak or very weak in the areas of investment (in assets or staff) and staff levels.

This finding suggests that capacity issues are not uniform and there are segments within the NFP population that are facing particular challenges. This could be considered an important focus for future iterations of this evaluation.

**NFP’s rating of current capacity n:181**

- **Ability to meet current debts**
- **Capacity to replace existing assets to maintain service levels**
- **Capacity to invest in assets to improve services**
- **Staff levels compared with ideal levels**
- **Overall level of staff skills**
- **Capacity to invest in staff dev**
Response to the *Delivering Community Services in Partnership Policy*

The Delivering Community Services in Partnership (DCSP) Policy was developed jointly by the NFP sector and Government and launched on 1 July 2011. It replaces the previous Funding and Purchasing Community Services Policy (2002) and is being phased in across Government as existing funding and contracting arrangements for community services expire.

The aim of the policy is to improve outcomes for citizens by building a partnership between the public sector and the NFP sector in the areas of policy, planning and delivery of community services. It particular, it aims to build a collaborative approach to decision-making, including into the design and delivery of service outcomes and to ensure that funding levels are sufficient for sustainable NFP services.\(^4\)

Government agencies are required to comply with new procurement processes; namely to:

- Use standardised documentation associated with the *DCSP Policy* (including contracting templates, conditions and reporting frameworks)
- Give consideration to service providers’ funding certainty and security, and consider the establishment of longer-term service agreements
- Where possible, roll multiple service agreements between a single service provider and Government agency into a consolidated master agreement, and
- Apply indexation to all contracting arrangements in accordance with Government policy.\(^6\)

This evaluation included assessment of the extent to which NFPs are aware of and have been engaged in bidding for contracts under the DCSP Policy. It also examined the impact, if any, on the amount of resources allocated to procurement and contract administration of services with State Government agencies. The survey also sought opinions on the impact of the policy, both on the NFP and end-users of services.

**Knowledge of the *Delivering Community Services in Partnership Policy***

NFP awareness and understanding of the *DCSP policy* is high.

86% of respondents had heard of the *DCSP Policy* and of these people, three quarters rated their knowledge between fair and very good.

Over three quarters said they or their staff had attended some form of training, with most having attended pricing and costing training or the partnership forum.

![Knowledge of DCSP Policy](chart.png)
Extent of recent contracting with the State Government

Less than half of the respondents (43% or 78 organisations) had submitted a tender to provide community services in the last 12 months. Those that had tendered to provide services stated that 70% of these contracts had been submitted under DCSP Policy while 40% of these had been submitted with Preferred Service Provider status.

Current and expected levels of administrative work under DCSP

The time taken to prepare tenders or manage service agreements varies considerably.

Tendering to supply services to State Government agencies and the management of these contracts after being awarded both averaged around 15 working days. However, there was a wide distribution in responses with 22% saying it took more than 5 working weeks to prepare tender submissions. Just under a quarter of respondents reported spending more than 6 working weeks in contract management (excluding management of the contract delivery).

Administrative work is expected to increase.

Respondents expect procurement reforms to have the effect of increasing time spent tendering for State Government contracts and, in particular, the time required to manage contracts. For example, 64% of respondents believe that it will take more time to develop contract terms under the DCSP Policy. It is likely that this response is reflective of the focus on outcomes rather than outputs and the challenges this represents.
Impact of the *DCSP policy* on service to end users

It is too early to tell.

Many respondents were unable to comment regarding the impact of the *DCSP Policy* on end users as they considered it too early to tell. (This was also the case with regard to the opinion of agencies.) This year’s results provide a base-line against which to evaluate change in subsequent years. Once all NFPs and agencies have had experience of the implementation and operation of contracts under the DSCP policy it will be more relevant to seek information regarding impact.

**Impact of DCSP on quality of service to end users n:181**

- **Range of services**: 40% Much Worse, 35% Worse, 42% Somewhat Worse, 34% About the Same, 42% Somewhat Better, 34% Better, 34% Much Better, 32% Don’t Know
- **Access to service**: 42% Much Worse, 35% Worse, 42% Somewhat Worse, 34% About the Same, 42% Somewhat Better, 34% Better, 34% Much Better, 32% Don’t Know
- **Quantity of services**: 42% Much Worse, 35% Worse, 42% Somewhat Worse, 34% About the Same, 42% Somewhat Better, 34% Better, 34% Much Better, 32% Don’t Know
- **Quality of services**: 42% Much Worse, 35% Worse, 42% Somewhat Worse, 34% About the Same, 42% Somewhat Better, 34% Better, 34% Much Better, 32% Don’t Know
Overall opinions of the *DCSP Policy* – NFPs and Government agencies

NFPs are mostly positive about the *DCSP Policy* but as mentioned previously, they do not believe it will result in a reduction in administrative work. Responses from Government Agencies were very similar.

To identify any differences in opinion, survey respondents of the NFP sector and representatives of the respective Government agencies were asked if they agreed or disagreed with a set of identical or similar statements about their contracting relationships and the *DCSP Policy*.

The results show NFPs and agencies agree on most aspects but NFPs are less positive overall.

Specifically, NFP representatives and agencies believed that ‘specifying contract outcomes instead of outputs improves services to the community’ (Ave 5.27 and 5.5 out of 6 respectively). They also agreed that the relationships between agency purchasers and the NFP providers are strong (Ave 5.5 and 6.57 respectively). Both NFPs and agencies did not agree with the statements regarding a reduction in administrative work.
Final comments about experiences in tendering and contracting with State Government agencies

The survey included an open-ended question to give the NFP respondents an opportunity to provide feedback on any issue. Comments were provided by 104 respondents and examples have been grouped under headings for ease of analysis.

The single most common comment was that it was too early to judge the process of implementing DCSP or outcomes. Some commented on their expectation that contracting for outcomes will improve services to end users. However, it was also clear that there is a level of frustration with the administrative requirements and consistency of implementing procurement reforms. There was also specific praise and criticism for some agencies.

Too early to judge

“[It] is too early to judge the impact of the policy ... [T]he tender processes and contract terms, including required outcomes are still being developed and negotiation has not yet occurred. [B]oth government agencies and nfp's are putting in a great deal of time and resource (more than in past because it is substantial change) on these processes and the benefits cannot yet be calculated or realised. [O]n the whole our organisation view[s] the developments very positively and believe there will be enhanced services and efficiencies. [B]ut this can only be measured over the next 2 to 3 years once the cycle is stable and seen as business as usual.”

Implementing change to DCSP

“Yet to really experience the process.”

“Still learning of expectations from Government in the [sector] sector.”

“Its new, its different, a paradigm shift and it will take time for all parties to adjust to requirements. However the people we serve are more likely to get a better outcome.”

“There is still a considerable divergence between Departments and understanding of the partnership design. Interestingly, Departments indicate they have consulted with DoF as a way of legitimising their divergence.”

“Based on our understanding of the new contracting arrangements formed by our participation in a wide range of workshops and forums on the matter, the theoretical framework it purports has not been embraced equivalently by all Government Agencies. In some cases we are entering arrangements with knowledge that they are not necessarily reflective of Department of Treasury and Department of Finance intent under the DCSP.”

“We are only just starting this tender process, however we have received a large amount of support from our funding body.”

“Our organisation has not been through this process as yet - only having agreement extensions. We have talked with many in our sector that have been through the process. The feedback has been positive - and yet time consuming. There are many improvements in the process and organisation responses and planning that can be made to maximise the outcomes of this policy. I look forward to working with our line agency and Government generally to collectively realise many of the principles and aspirations of the policy.”
Outcomes contracting

“Apart from numbers of participants it is hard to measure outcomes for programs that the [Centre] delivers to the public. Recently staff saved a man from committing suicide which is not recorded in funding justification. One of our funding commitments was to become self funding before June 2013 which is difficult considering a majority of clients are homeless and penniless.”

Agency specific

“I think the [agency] tend to use preferred providers and if a [NFP] has been successfully delivering a service they will always receive preferential treatment with regard to funds allocations. It is difficult for new players in the market to successfully tender for an existing service.”

“Department for Child Protection were really good to deal with.”

“Very patchy from one line agency to the next. A [agency] process was very short as they said they needed to get services agreed quickly. [T]hey gave themselves one month to make [a] decision and we are now almost 7 months post submission with no decision.”

“It varies considerably from agency to agency. Our experience with Department for Communities has been very positive despite the extra workload placed on them and us.”

“Generally our experience has been positive apart from our [agency] service which is required to produce 29 reports to four different Government agencies every year. I have no problem with being accountable but to use so much of our funding to employ someone to produce all these reports seems a little counter productive.”

Costing and pricing of services

“Many of the tenders are based on a metro model of service delivery and community infrastructures, there is little or no variances for rural and remote, the costs of service delivery in rural areas is much higher due to distance, lack of other services or public transport, regional based Government services with no outreach or after hour services, sparse populations over greater distances.”

“Much longer time for notification of outcome - an extra layer of bureaucracy has been added; the idea of a sustainable price is a nonsense - price is based on what Government is willing to pay; agencies are at different levels of development of their relationships with NGOs and their understanding of the new environment.”
This section summarises the responses from interviews conducted with seven Government agencies:

- Disability Service Commission
- Department of Health
- Department for Child Protection
- Department for Communities
- Department of Corrective Services
- Mental Health Commission
- Office of the Drug and Alcohol Authority

These agencies account for 94% of the value of contracts with the NFP sector and 87% of the number contracts.

To facilitate full and open feedback, the interviews with agency representatives were conducted in confidence. In this report, only information that is generally publicly accessible, such as contract and staff numbers has been attributed to individual agencies.

A profile of state government procurement and contract management resources

Size

Across the seven agencies there are about 165 FTE working in procurement and contract management of community services.

Staff numbers vary from nine FTE in one agency to 56 FTE in another.

Five out of seven agencies have a single central unit responsible for procurement and contract management. There are logical operational reasons for agencies adopting differing models of contract management within the policy arrangements. The exceptions are:

- The Department of Health that has a large central core of staff, but also staff located in the five Area Health Services. They described their structure as central governance but distributed implementation.

- In the Department for Child Protection most staff are located in a single central office. However they also have eight contract managers distributed around the state.
Structure

Most agencies provide specific procurement and contract management guidelines and staff are expected to comply with these.

Procurement and contract management is mostly undertaken using a structured, methodical approach. All agencies have formal procedures and most have or are developing detailed manuals that prescribe the process that staff must undertake when procuring or managing contracts.

In all but one case, agencies have a formal written manual often described as ‘the Bible’ that includes specific guidelines, procedures, planning and templates. Several agencies commented that they are currently updating their manual to reflect the DCSP Policy. One agency is seeking International Organisation for Standardisation (ISO 90001) accreditation for their procedures and manual.

The use of contract registers or databases

All agencies use a procurement and/or contract management database. However, the software and content differs.

Databases are used by all agencies to facilitate procurement and contract management. These databases include the name or reference number of the contract, details of the contracted organisation, a description of the service (only a title in some cases), the annual contract value, date of commencement and the contract expiry date.

These databases typically do not include information on the total contract price or contract length as this data was not required prior to the introduction of the DCSP Policy. The achievement of service outcomes or outputs is recorded in individual contract records but is also not part of the database or consolidated in another format. As such, existing contract databases do not facilitate collection of service area or whole-of-agency records on the achievement of outcomes which may affect the capacity of agencies to report at a corporate level in the future for these elements.

Many agencies use specialist bespoke or highly tailored contract management software and in most cases this software is over 10 years old – some is much older. Several agencies are using software that they inherited from a ‘related’ agency (for instance, the Department for Communities has software from the Department for Child Protection, while Mental Health Commission and the Office of the Drug and Alcohol Authority have databases originating in the Department of Health).

Databases are updated constantly in real time and as such obtaining historical data or a historical snapshot is often difficult for some agency systems. Many agencies also store information such as exemptions in separate databases.

Nearly all agencies indicated that the quality of their software was poor and is in need of updating. There was also a view that the use of a common system across agencies would improve cross-agency knowledge sharing.
Agencies’ capacity to apply the DCSP Policy

Staff have received extensive training and support and agencies believe they have the skills to implement the DCSP Policy effectively.

All agencies have provided staff with formal and on-the-job training and most have also been provided with regular newsletters and other updates, and hold regular team meetings that included specific components on professional development.

“All staff have attended a range of training opportunities, including those provided by the Dept of Finance. For example: Contract Management Workshop Partnership Forum; Progress and Next Stages Introduction to Outcomes Based Procurement; Outcomes Based Procurement - Advanced Pricing & Costing Workshop, Social Return on Investment - introductory course. 3 staff undertook the Procurement Vocational Program (PVP), offered with the support of the Dept of Finance. (...) Completion of these modules will gain participants Statements of Attainment and build credit toward a Diploma of Government (Procurement and Contracting)”

All but one agency rated their staff’s awareness of how to implement DCSP Policy as very good or good. However, they also mentioned the additional workload and the pressure on current staff to implement the reforms within the timeframe. In particular, work pressures are likely to be significant in the first six months of 2013 because agency staff will be catching up with contract revision work that was delayed to allow for the introduction of the DCSP Policy.

All agencies interviewed have had a Capability Review that was undertaken by the Department of Finance, Funding and Contracting Services Unit via independent evaluators.

Data on contracts and transition to DCSP Framework

The number of Not for Profit organisations with service agreements and/or grant agreements.

There is a high level of variation among agencies in terms of contract numbers, types and the approach used to contract with NFP organisations. This is reflective of the diversity of community services, the size of programs and the risk associated with particular service delivery.

Table 1 shows data from agencies related to the number of organisations with which they have contracts. There is a wide variation. Some agencies have relationships with more than 100 NFPs - for instance the Department for Communities reports contracting with 371 different organisations, most of which are grant recipients. In addition to the contracts with NFP organisations, agencies have contracts to purchase community services with some ‘For profit’ organisations. In the Disability and Health sector, the value of these contracts is significant.

<table>
<thead>
<tr>
<th>Agencies</th>
<th>NFPs service agreements only</th>
<th>NFPs grants only</th>
<th>NFPs service agreement(s) &amp; grant(s)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Corrective Services</td>
<td>46</td>
<td>1</td>
<td>0</td>
<td>47</td>
</tr>
<tr>
<td>Drug and Alcohol Office</td>
<td>33</td>
<td>1</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>Department of Health</td>
<td>83</td>
<td>0</td>
<td>36</td>
<td>119</td>
</tr>
<tr>
<td>Disability Services Commission</td>
<td>101</td>
<td>6</td>
<td>1</td>
<td>108</td>
</tr>
<tr>
<td>Mental Health Commission</td>
<td>57</td>
<td>18</td>
<td>11</td>
<td>86</td>
</tr>
<tr>
<td>Department for Child Protection</td>
<td>169</td>
<td>Not Avail</td>
<td>Not Avail</td>
<td>169</td>
</tr>
<tr>
<td>Department for Communities</td>
<td>144</td>
<td>227</td>
<td>0</td>
<td>371</td>
</tr>
</tbody>
</table>
Number of agreements or grants

Table 2 shows data on the total number of service agreements and grants held with NFP organisations as at 30 June 2012 and the expected number of agreements and grants by July 2013.

Agencies are consolidating contracts where appropriate. For example, in cases where a single supplier has a contract for the same service in a number of different locations or is providing a range of services in a single location. There are also new contracts being developed in response to community needs. In some cases, agencies stated they expected the number of contracts to increase in response to a need to create greater competition in their sector.

As a result, the total numbers do not reflect the extent to which contracts are being consolidated. In total, agencies expect the net number of service agreements to decline by 27 and the number of grants to decline by 42 by July 2013.

Use of Preferred Service Provider status

Respondents stated that over 80% (and in some cases 90%) of contracts were established with Preferred Providers.

Extent to which contracts have been transitioned to DCSP Policy Framework

Agency data shows that as at 30 June 2012, only a small number of contracts were consistent with the DCSP Policy. However, all contracts currently being developed or renewed are consistent with the DCSP Policy. In addition, all agencies have a program to transition contracts to the DCSP framework over the next three to five years.
Agencies’ implementation of the DCSP policy

Support for the DCSP policy

Agencies strongly support the principles of the DCSP Policy.

Some agencies spoke of already having mutually respectful and mature relationships with NFPs and a procurement and contract management approach consistent with the policy. For these organisations, the policy was seen as clearly articulating and formalising practices they had already been implementing.

“The changes are mostly in the terminology and the templates, but otherwise it hasn’t been a big shift.”

“We have been reducing the number of contracts over the last few years anyway”

Other agencies described themselves as ‘ripe’ for the DCSP Policy. They commented that there had been a strong, pre-existing desire to move towards the kind of contracting relationships defined under DCSP Policy. However, for a number of reasons, achieving the desired changes had been slow. These agencies saw the DCSP Policy as enabling them to achieve desired change more quickly and effectively.

“Staff in our branch] are really pumped about it. We are really thinking about the purpose of the services now. I reckon we will be making better purchasing decisions”

“Having to review the procurement structures and contracts has thrown up some service agreements that aren’t delivering. It has raised some questions in people’s minds about why we are contracting for a particular service.”

“We would have wanted to do something like this ourselves, but it can be difficult to get the initiative going. Having a whole government approach means we have a reason to change. We have a mandate to change now”

“It’s very prescriptive and has to be consistent. Every agency must do it this way. The sector expects consistency and they have a lot more say about how they want the contracts done. This is good”

Working with the NFP sector

Agencies stated that they regularly undertake both formal and informal consultation with the sector. However, the DCSP Policy focus on partnering with the NFP sector formalises this principle.

Interviewees believe their agencies have close and mature relationships with most of the NFP organisations providing community services. These relationships have been based on the parties filling traditional funder – provider roles. Under the DCSP Policy, there is greater recognition of the interdependent nature of their relationship and this is affecting the way agencies engage with the sector.

“Consultation with the sector was always there, but sometimes inconsistent. There has always been a strong willingness for cooperation but this is now embedded in the process. [Type of] agreement was a good example of how we work with the community service providers. There was a long and deliberate process of consultation and collaboration. It was deliberately designed collaboratively.”
One interviewee seemed less willing to change.

“I don’t think that the DCSP will create significant change in our business strategy. It won’t be the ‘tale wagging the dog’.”

Contracting for outcomes

There is widespread support for contracting for outcomes but concerns about how it will work in practice.

One agency said that it already contracts for outcomes. However the others stated that defining contracts in true outcome terms and measuring performance as required under DCSP Policy is a significant challenge. The requirement to re-think contract goals and focus on benefits to end-users is creating considerable work but resulting in better service design. The practicalities of getting outcomes down on paper and then measuring performance against these are challenging, and this is expected to be a major focus area for agencies throughout 2013.

“The old contracts have loosely defined outcomes, now they are much clearer.”

“The process of the new DCSP is helping everyone focus on and think about outcomes - and leading to better contract development. It is making contract design more people and citizen centric. However, actually defining outcomes is very difficult. We are working towards it and using the support of our research and evaluation area to provide outcomes statements. Only a few contracts have been developed under the new policy. So early days.”

“Focusing on measuring outcomes KPIs means that contracting ambitions are being curtailed. That is, if you have to be able to measure it and identify causality, then the outcome ends up being very upstream. E.g. people go away satisfied that they have... Instead of “x not happening after ten years. This is a risk of the new policy and how it is being implemented.”

“There is confusion and anxiety in the sector - It is very difficult to define what good outcomes contracting looks like. Therefore it’s difficult to manage change. We can’t say ‘we are here and we need to be there’, as ‘there’ is not clear and we are having to formulate that together as we go forward.”

“Accountability issues are going to be complex and are still not clear. Outcomes based reporting is expensive and may not provide the accountability that government wants - particularly within short time cycles.”

Increasing the duration of contracts

Agencies are fully aware of the intent of the DCSP Policy to increase the duration of contracts, to reduce burden and create funding certainty. However, there were differences in agencies’ application of the policy. Most commented that the duration of contracts is already or will become three years, with two options for a 1 year extension – known as 3+1+1. One agency mentioned that it is now offering 5+1+1 contracts. Another agency said strict adherence to 3+1+1 would reduce the length of contracts as it was their practice to extend or renew contracts so that in effect, they would last seven to ten years.

“[Agency] always offered long term contracts to providers, minimum 3+1+1.”
Pricing under DCSP Policy

Agencies have to provide NFPs with budget guidance.

Under previous procurement practices, agencies could specify a unit or volume of service it required and indicate a price or range of prices that it would pay. The DCSP Policy requires agencies to specify community service outcomes rather than outputs and discourages defining prices. This is a significant change and has been described in terms of community service organisations becoming “price makers rather than price takers.”

Again, agencies are supportive of this principle, although they find it difficult to apply in practice. Agencies want to pay fair prices for services and support sustainability of their contractors. However, of course, they must also work within the budgets they are set.

In addition, they have to provide financial and price guidance to NFPs so that they do not over or under price services. Several agencies commented on the limited capacity of NFPs to cost services and the need to work with the NFP staff to ensure that they do not under- or over-bid. Of course, there are risks to service delivery if bids are too low. Obviously, this arrangement will mature over coming years.

“We have mostly not gone out without indicating a price. We had one contract that we didn’t specify a price for and we got bids that were less than half of the current price and some that were double. We have to go back to those who bid so little and work with them, because we know they cannot deliver the service for the price they charged and if we accepted it they would go out of business. We also had a bid for an [type of] service at $2.5m when we only had a budget of $1m.”

“Our practice is to tell them the budget we have and they bid for the amount of service they can provide.”

“There has been a culture of dependency, and many [NFPs] just never thought too hard about their costs or income.”

“Originally the talk was all about being a price taker, but everyone soon realised that couldn’t happen. We have limited budgets and we must work to them.”

Impact of DCSP on agency workload

All agencies commented on the increase in workload as a result of the DCSP Policy. Most consider that the amount of work required to procure and manage service will remain high, not diminish over time.

Consolidating contracts, extending the duration of contracts and reducing the reporting requirements are expected to result in a reduction in workload over time. This is expected to be more than offset by the increased work needed to define and evaluate contracts based on outcomes explained above. However, it was generally accepted that this increase is positive in terms of the overall policy objectives.

“[Agency] are dropping 6 monthly reporting and moving toward annual reporting.”

“We now no longer need audited financial statements and have streamlined annual reports.”

Footnote: For example, see Western Australian Council of Social Services (WACOSS) website – Costing and pricing your service. www.wacoss.org.au/CommunitySectorFundingReform/Resources/FundingreformCosting
Impact of DCSP Policy on the length of contracting process

The elapsed time to complete contracts has increased, although agencies see benefits to the quality of the contracts.

“The elapsed time to procure a new contract has gone from 2 months to about 4 to 6 months. This includes some of the new learning, but the process is much better and the contracts are better.”

“Too early to tell if the negotiation times will be longer. However, with outcomes it will take longer to develop contract terms. The CSPRC [Community Services Procurement Review Committee] adds 6 weeks to the time frame. Previously it took 3 to 4 months elapsed time to renew a contract. Now it takes 5 to 6 months. The consultation time to develop a procurement plan per contract is now significant.”

“To contract with a Preferred Provider used to take about 1 month.”

“The CSPRC are being somewhat pedantic, discussing syntax etcetera and putting fear into some of the level 4s and 5s there.”

“They need to up the level at which agreements are required to be reviewed externally. It is easy to go above these with a contract that is only $250,000 over five years.

Comments on the implementation of change

Some agencies want to be more engaged in decisions about procurement reform and respected for their detailed knowledge and work.

“This policy created a huge change for [the agency] and a huge increase in administration. However, we didn’t receive any additional support to implement it and have had to push staff to deliver. We devote a great deal of time to getting this right and in many ways don’t feel that our work is respected. Changes are made, such as those to the templates without reference to us. There is not sufficient respect in the process. Any provision of help would have at least recognised the additional burden we must deal with.”

Dissatisfaction with templates

Most agencies complained about the new contract templates, stating they are more complex and difficult for both the agency and NFP organisations to understand.

Agencies would like to have been involved in template design and hope that there will be an opportunity to engage with regard to the refinement of the templates in the future. Respondents felt that they have detailed knowledge of contracting and their funded sector and would like this to be respected.

“The new templates are very complex. The Four Corners document was clear and easy to understand for both the service provider and the agency. The new ones are longer, more confusing and not as logical. This has increased workload on everyone.”
Impact on the provision of services to the end users

All agencies commented that it is too early to determine whether the DCSP Policy will have an effect on the quality of services to end-users. Some agencies believe the quantity of service will decline.

Four agencies hoped and expected that the policy will make a positive difference. However they stated it would take several years before the outcome is known. Others believe that the DCSP Policy may reduce the amount of service delivered if not managed properly. Their argument is that if the quality of service is fixed and price is determined by agency budgets, then the only factor that NFPs can change is the quantity of service provided. Agencies need to be aware of this and manage accordingly.

“It is too early to tell if the policy will make a difference to end users of services.”

“Theoretically, the results for the community should be better, but it is too early to tell.”

“For the service providers, it is making them all think a lot harder. It is challenging their thinking about why they do certain things and if the approach is the best one.”

“In the new pricing environment, we specify the quality of service, but not the cost of individual services. However, we have to work within the budget. We have service providers increasing the cost of service to more sustainable levels, so the result is a reduction in the quantity of service provided.”
Enhancements for the 2013 and subsequent evaluations

This is the first time research of this kind and scale has been undertaken with the NFP sector in Western Australia. To improve and extend the study, the Curtin research team suggests the following for the 2013 and subsequent research phases.

1. Continue to seek the support from the sector peak bodies to promote the study and encourage a full response, particularly the Western Australian Council of Social Services and National Disability Services WA. Also seek a high profile individual sponsor to promote response.

2. Distribute this report widely in the sector and encourage discussion of the findings as feedback on and engagement with this study will also support increased participation of the sector in 2013.

3. Include the whole population of NFPs contracting with government agencies.

4. Include all 16 government agencies in the population and distribute the questionnaire electronically for self-completion.

5. Examine contract databases and define a contract data set most agencies will be able to supply and, ideally, will be useful for agencies themselves. This step should be carried out as soon as practicable and the requirements forwarded to agencies.

6. Shorten the questionnaires for both the agency and the NFP sector. The 2012 questionnaire included some questions that will not be required in future as factual data can be used to measure change. For example, statements of change in staff numbers can be substituted with the actual data on staff.

7. Include additional questions to examine specific issues such as staff pay and other issues identified in the framework that could not be included in the first generation of the survey.
Appendix - Survey Methodology

Analysis of contract data indicated that the 2012 framework and data collection should focus on collecting information on the contracts held by the ‘Core Seven’ agencies and the corresponding set of 431 NFP organisations that account for both the significant majority of contracts and contract funding. Future evaluations should be extended to the full population of contracts, NFP organisations and agencies affected by the reforms.

The survey instrument and methodology was approved in accordance with Curtin’s Ethics Policy and Practice. The approval number is ACC-15-12.

The survey of NFP organisations

The core seven agencies were requested by Treasury to provide an up-to-date list of the email addresses of the Chief Executive or key contact within each NFP agency. These lists were de-duplicated by Curtin and resulted in a list of 431 individual NFP organisations and the name of their representative. A questionnaire was developed and approved by the Partnership Forum Working Group Sub-group (PFWGSG). The PFWGSG also prepared a covering email to be sent to respondents describing the purpose of the survey and containing a link to the questionnaire. The questionnaire was uploaded into survey software, and tested (piloted) with a small number of representatives of NFP organisations to check structure, terminology, flow and technical aspects. On 15 November 2012 the email was disturbed to 431 respondents containing an individualised link to the survey. This approach ensured that only one response was received per organisation and only those organisations in the sample would be included in the results.

As respondents have an important, long-term relationship with Government through the one or more agencies that purchase services from them and the subject of the survey was considered highly topical, it was expected that all or nearly all would respond. A full response is also important to the ability to understand the overall demographics of the sector and as the basis for monitoring the impact of the reforms on all NFPs over time. However, initial response rates were low, with less than 40 respondents completing the questionnaire by 19 November. On 20 November the covering email was shortened and redrafted and sent as a reminder to all those who had not completed the questionnaire. In addition, National Disability Services WA (NDS) and the Western Australian Council of Social Services (WACOSS) promoted support of the survey either through newsletters or emails. The closing date for the survey was extended to 30 November and a second and final reminder sent on 28 November 2012. The final response rate was about 42%. Of the 431 emails distributed, 236 people opened the link to the survey and of these 181 completed the survey. The final sample included in the survey and summarised in this report is therefore 181. The sample sizes (n) vary for each question and are noted in the charts and tables. Curtin has reviewed these results and identified enhancements for subsequent surveys.
The survey of State Government agencies

A questionnaire for agencies and a template for contracting information was prepared and distributed to agencies. Curtin university representatives then undertook face-to-face interviews with the key personnel in each of the seven agencies who are responsible for procurement and contract management with the NFP sector. The interviews lasted 1.5 to 2 hours each and were conducted over a two week period from 31 October 2012.