



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FAMILY AND COMMUNITY AFFAIRS

Reference: Competitive tendering of welfare service delivery

CANBERRA

Friday, 24 October 1997

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON FAMILY AND COMMUNITY AFFAIRS

Members:

Mr Forrest (Chair)
Mr Quick (Deputy Chair)

Mr Ross Cameron	Ms Macklin
Ms Ellis	Mr Allan Morris
Mrs Elson	Dr Nelson
Mrs Elizabeth Grace	Mr Slipper
Mrs De-Anne Kelly	Mrs Vale
Mr Kerr	Mrs West

Matters referred for inquiry into and report on:

The desirability and feasibility of increased contracting out of welfare service delivery by all service providers, with specific reference to:

the current levels of welfare service provision by the non-government welfare sector;

the adequacy of current monitoring of performance standards for services delivered by the non-government welfare sector;

the costs and benefits provided by increased contracting out of government services;

the role of government in standards setting and monitoring of accountability standards; and

the role of government in measuring the efficiency and effectiveness of new service delivery arrangements.

WITNESSES

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BASHFORD, Mr Graham, General Manager, Business Development, Centrelink, Tuggeranong Office Park, Athllon Drive, Tuggeranong, Australian Capital Territory 2900	194
BRAITHWAITE, Mrs Janet, Executive Director, Australian Council for Rehabilitation of Disabled Ltd, PO Box 60, Curtin, Australian Capital Territory	219
BRIGGS, Ms Lynelle, First Assistant Secretary, Portfolio Strategies Group, Department of Health and Family Services, GPO Box 9848 (MDP 51), Canberra, Australian Capital Territory 2601	127
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O'CONNOR, Mr Toby, National Director, Australian Catholic Social Welfare Commission, PO Box 326, Curtin, Australian Capital Territory 2605	255
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Present

Mr Forrest (Chair)

Ms Ellis

Mr Allan Morris

The committee met at 9.09 a.m.

Mr Forrest took the chair.

CHAIR—I am pleased to open this second day of public hearings on the committee's inquiry into the competitive tendering of welfare service delivery as referred by the Minister for Health and Family Services, the Hon. Dr Michael Wooldridge, in April this year. The committee is looking at the desirability and feasibility of increased contracting out of welfare services by all service providers.

The main issues to be resolved by the inquiry are to establish the current levels of welfare service provision by the non-government welfare sector, and to examine the adequacy of current monitoring of performance standards for services delivered and the costs and benefits provided by increased contracting out. An important component of the committee's investigations is to examine the role of government in standards setting and monitoring of accountability standards, as well as measuring the efficiency and effectiveness of new service delivery arrangements. It should also be stressed that the inquiry is being conducted in the context of continued government responsibility for such services.

The hearing in Canberra today follows a hearing conducted in Melbourne earlier this month. Today's hearing provides preliminary evidence on issues to be raised with witnesses around capital cities in most states and will be followed by two days in Sydney in November. The committee is also intending to visit a regional area in Queensland early next year to gain information from service providers outside the capital city networks. It is particularly important to canvass views of service providers in areas where population levels are low and dispersed over large distances.

The committee will take evidence today from a range of federal government departments and national organisations based in Canberra.

AMIES, Dr Marion, Director, Policy Development Section, Portfolio Strategies Group, Department of Health and Family Services, GPO Box 9848 (MDP 51), Canberra, Australian Capital Territory 2601

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CHAIRMAN—I now welcome representatives from the Department of Health and Family Services, who are appearing for the committee. Before we proceed I wish to point out that while this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of parliament. All submissions already received have been incorporated in the published volumes of submissions already distributed as part of the inquiry.

Ms Briggs, do you want to make a preliminary submission or add anything to your written submission, or do the other members of your team want to do so? Then we might proceed to questions from the committee.

Ms Briggs—The Department of Health and Family Services is pleased to have the opportunity to provide evidence to the committee on issues around contracting out and competitive tender of family services and community services. The department has provided the committee with a written submission covering the main issues relevant to the terms of reference of the inquiry. I will not, for the most part, repeat that information here.

Welfare in Australia is a large and complex operation. It is characterised by a mixed economy of all spheres of government, not-for-profit and for-profit organisations, carers, volunteers and the community. Total non-Social Security welfare services expenditure for 1995-96 was \$8.9 billion provided by government, about \$5.8 billion, which was 65 per cent of the total; and for the non-government sector, \$0.9 billion, which is 10 per cent of the total—the remaining \$2.2 billion, 25 per cent, from client fees.

In contrast, in 1994-95 it was estimated that while the non-government sector provided only 10 per cent of non-Social Security welfare services funding, it delivered 61 per cent of welfare services. In 1996-97 the Department of Health and Family Services program outlays for aged and community care, disability programs and family and children's services totalled \$5.4 billion.

The boundary between welfare and health is an arcane technical issue, but a little over half this \$5.5 billion comprises the bulk of HFS's welfare spending, with the remainder of the \$5.4 billion mostly aged care funding, comprising health. Some other

HFS programs contain elements of welfare funding as well.

In large part the impetus for contracting out comes from the government's decision in December 1996 that all activities undertaken by the Australian Public Service be reviewed to ensure that the Public Service focuses on those activities that are primarily its responsibility as the Commonwealth government. Where it is decided that activities should remain the responsibility of the Commonwealth, managers are required to consider ways in which performance improvement tools, such as competitive tendering and contracting, could be used to improve efficiency and effectiveness.

There is now an assumption that government business should be contracted out unless there is good reason for the public sector to continue to be involved in those activities. Activities include both services and programs delivered to clients, including piloting new services, and administrative and support services undertaken by the department which facilitate the funding implementation and accountability of the services delivered to clients.

Historically, almost all of the family and community services funded by HFS have been delivered through funding or contractual arrangements with other spheres of government, and a wide range of community and for-profit organisations. Many of these are long established funding and contractual relationships, reflecting the need for stability of service provisions—for example, in aged care—and in many cases the Commonwealth capital investment in infrastructure—for example, nursing homes and child care centres. They are ongoing and not subject to periodic competitive tendering.

In reviewing our services in the context of the last two budgets we have decided that some family and community services being directly provided by HFS, the Commonwealth Rehabilitation Service and the Australian Hearing Services, should move to a more commercial mode of operation, with a longer term view of enhancing market contestability by providing increased consumer choice. In general terms, the funding and contractual arrangements under which HFS funds the bulk of its family and community services should continue. That is the second point. The nature of the arrangements for new service providers will be in keeping with legislation regarding the use of grants and contracts. Thirdly, there should be further scrutiny of all administrative and support services undertaken within the department with a view to improving cost effectiveness, including through contracting out.

In making these decisions we have been mindful that competitive tendering is only one of the many tools that can be used for improving the efficiency and effectiveness of government funded services. As with all such tools, real benefits are most likely to be demonstrated when they are used in accordance with best practice advice and in light of sound knowledge of the services and the industry sector within which they operate. Best practice advice on competitive tendering and contracting stresses that while competitive tendering assists in gaining value for money in achieving outcomes for consumers and policy outcomes for government, price alone is not necessarily a reliable indicator of value for money. Other factors need to be taken into account, including the nature and quality of the services to be provided, the financial stability, competency and experience of potential

providers, affordable public access to services, potential risks and the impact of competitive tendering on the overall market.

Best practice advice also stresses the desirability of building stable and collaborative relationships between purchasers and providers to ensure mutual benefits from the expertise and industry knowledge of providers. Overall, even though the possibility of using competitive tendering must be considered for all services, it is a tool to be used selectively in a targeted way.

HFS considers that benefits can be expected where competition is possible, and we are certainly looking at that. However, competition assumes a viable market with a number of potential providers capable of competing for contracts and competing for clients. This is not always the case in relation to welfare services, especially in rural and remote areas. Even where there is a potentially competitive market, it should not be assumed that there will always be savings or that savings will be maintained over time as a result of competitive tendering. I think, for example, the great efficiencies that have been achieved in the government sector over the last 10 years indicate that in moving into this process now we are probably a long way advanced on where some of the other states and countries were when they went down this route.

Contracting out, particularly through competitive tendering, imposes overheads as well, including transaction costs, which can be considerable when large numbers of contracts are involved, as in the case in our portfolio. Competitive tendering may result in short-term savings, which may not be maintained if competition fails because unsuccessful tenderers are unwilling to continue to offer tenders in view of the costs involved, especially where there are high set up costs such as in nursing homes.

Long-term relationships are desirable between the purchaser and the providers of welfare services where stability of case management and continuity of service to clients are essential. In addition, the Commonwealth has sunk considerable costs in infrastructure in many of these long-term relationships—for example, aged care and community child-care centres. This could have significant implications for a shift from current outsourcing arrangements to competitive tendering. HFS considers that any contracting out arrangements should involve best practice purchasing to limit transaction costs and ensure positive partnerships that encourage providers to invest in quality and to deliver continuity of services while being subject to competitive pressures.

The introduction of competitive neutrality and competitive tendering presents at this time some risks for the welfare sector itself. The more profit oriented services become, the less attractive they may be to volunteers and donors who are willing to support not-for-profit organisations or a specific cause but have reservations about contributing to profit that is not ploughed back into services. Continuing pressures for increased efficiency may also mean that some small service providers are no longer viable, with the risk of less consumer choice and the possibility of creating large-scale monopoly service organisations that may not be tailored to different customer and regional needs. I understand this was an issue that came up in your hearings in Melbourne, Mr Chairman.

Competitive tendering of family and community services has been introduced selectively. However, HFS considers, particularly in the welfare sector, that contracting out should not be limited to competitive bidding processes. Rather, it relates to a range of management approaches involving clearer separation of purchasing and providing, with the objective of improving the cost-effectiveness and customer focus of services. In the future, if the department considers that increased use of competitive tendering might significantly contribute to achieving the government's objectives for families and communities, the department would prefer to work collaboratively with state consumers and service providers to explore how this might be done best.

Responding to the government's objective of more cost-effective and client focused services involves the shared learning experience of public servants and for the family and community services sector in, firstly, developing policies which continue to shift the focus toward family support, recognising the critical role families play in nurturing children and supporting the elderly and people with disabilities; secondly, clarifying roles or responsibilities, more clearly identifying and defining accountability issues and performance measures and developing risk management strategies; and, thirdly, shifting to new ways of operating and responding to consumer needs as we move from the strong emphasis on the provision or purchasing of services to strategies that emphasise outcomes for individual consumers of those services.

CHAIR—It seems to me that we should at the outset get some definitions right, because from your submission the issue is not so much about the concept of contracting out where governments have been using agencies to deliver their services for years, but more about the process by which those agencies are assigned their work and how the government can be satisfied it has been through some sort of market test. I would like to use your good advice for the process of questions to help us with some of those definitions.

Before we do that, I was interested that your submission talks about the absence of viable markets, where to me the market is enormous with people on welfare, if that is the market. What you are really saying is 'the market of providers, who really are not the market'. That is what you are really saying on page 5 where you say markets do not often exist?

Ms Briggs—Yes, Mr Chairman, that is correct. I think you can see this reflected in the current experience that we are seeing in the Department of Employment, Education, Training and Youth Affairs, whereby as they went to tender for the employment placement enterprise arrangements they were very conscious of the fact that in some rural and remote communities, for example, there might not be a range of providers. They therefore made provision for the public employment placement enterprise to pick up the provision of services in those areas where a market of providers may not exist.

CHAIR—You also mentioned that competitive tendering as a process to establish the market test is only one of the tools. What are the other tools? What other tools are there for those objectives to be achieved?

Ms Briggs—From our framework we believe it is quite important to take account of performance measurement in the sector. We believe that we should have in place a series of monitoring arrangements that can help with assessment of current provisions. For example, at the current time we contract to in the order of about 10,000 different providers. We have a number of arrangements in place that, in effect, help them meet the objectives the government might have. For example, there are industry standards and accreditation arrangements. We have partnership and strategy agreements with the states which set out clearly the outcomes that we are expecting from current arrangements.

There are some performance indicators that we are hoping to build, and I suppose I would emphasise that at this stage I think all sectors of government in this country are progressively developing more effective indicators. We have quite a way to go to refine those so that we can get the best picture of the appropriateness of a particular service, or indeed the success of a particular service. That is something that we are working on as a group and I suppose in a team with the community sector.

CHAIR—Why can't you combine the two?

Ms Briggs—That is not inconceivable at all. You can certainly do that.

CHAIR—You could do the first by defining more accurately what the expectations are and the specifications of the contract and then, for the process for accreditation, you could invite tenders from accredited people and then monitor it.

Ms Briggs—Yes, you can definitely do that, and one of the things I would emphasise is that in many of the discussions I have heard on these issues, often some of the things that people are most concerned about are actually stages in a development over a period of time. I suppose we have seen concerns about how accreditation arrangements might work, how government monitoring structures might work, but it is not necessarily the case that those would be different under a competitive tendering environment.

CHAIR—Am I correct in interpreting from the reading of your submission and from your comments that you do not favour competitive tendering?

Ms Briggs—No, that is not the case at all. What we are saying is that at each level of government activity for the health and family services portfolio we should review carefully whether it is appropriate to go to competitive tendering at that time. We are very conscious of the fact that in this field we are often dealing with a very vulnerable group of customers—for example, the frail aged or people with disabilities, who often have intellectual problems that can make them quite vulnerable.

Mr ALLAN MORRIS—Nursing home residents?

Ms Briggs—The frail aged, yes. We consider it is important that we have a proper range of controls and quality standards in place to monitor the circumstances of those groups, but we also think it is important that longer term relationships are established. It would be very difficult, for example, for government, and indeed the community and the

individuals concerned, if we had a tendering process that commenced funding for, say, a 12-month period and then funding ceased. Where would those people go in the next round?

That is, of course, working on the basis that we have standards about the performance of those services in place which will ensure at the moment that a minimum level of standard provision exists.

CHAIR—The second point is the need to define what competitive tendering is. Already in evidence we have discovered that in some states what we have is not actually competitive tendering. In other words, ‘Here is a definition, here is a specification. Please give us a price to deliver it.’ What we have got in fact is a fixed price contract being offered and a request for the provision of some schedule of rates on how to deliver it, which is a back-to-front way of saying, ‘Well, how many hours or how many consultations or how many meals will I get delivered?’ But it is still to a fixed price contract, so the government still controls its budget. But I am not sure that that in a strict sense is really competitive tendering. What we need are some definitions about where we are at. It seems to be an initial step towards the objective.

Ms Briggs—That was exactly what I was going to say. Again, if we look at the example of the employment sector you will see there that they have begun with fixed price tenders, but in time the expectation is that they will move to variable price tender arrangements. I think that is largely because of a general concern about the maintenance of quality standards, to ensure that for a given price an expectation is that a certain level of standard will be delivered, and if organisations move to a more open tender process, the people assessing those tenders would need to be confident that the quality of service is maintained.

It is quite possible that organisations may well know ways that they could redesign their processes within those organisations to achieve efficiency and produce a given level of care or support for an individual at a lower price. Certainly my own experience in the social security portfolio is that we have looked to redesign the way we did our employment business, and we were able to do that without any reduction in the quality of standards.

CHAIR—Does that buy a little bit of time to make sure? To me the process is that we have got to be able to know how to define what we want: the quality. Suppose it is a Meals on Wheels service, defining those intangible things, where you do not just deliver a meal and disappear, but have a look around the room and try to see if things are in order, have an antenna going that may require the need to alert somebody else by saying, ‘Look, there’s a problem. The house is untidy; he is not attending to his toiletries or whatever.’ That has got to be rock solid, because you can move towards genuine competitive tendering, so people know what is expected of them.

Ms Briggs—I think that is a very insightful comment. Certainly we have found that in terms of our own thinking about this area, where we are thinking about how we specify particular outcomes in a certain area, it is not necessarily easy to outline the sort

of outcomes that you might expect in a disability service, for example, and so on. So the framework that governments are moving to in the immediate term is to focus on seeing if they can specify what outputs you might be looking for. In the disability field, for example, we might be looking to see a number of people move into normal employment arrangements, and we might look for targets around that or something like that. We are doing that at the moment but that is the sort of thing you can consider.

Similarly for a child-care centre you might be looking at how many children under a certain age or with a disability are being supported. So that is the first step. Going to that next step about the actual quality of the care is always a very difficult issue, and so it is not surprising that for the range of services we provide we try to maintain a series of—I do not want to use the word ‘controls’—quality standards to try and make sure that the support is being given in a reasonable way.

CHAIR—Is there any work being done—even the definitions of what competitive tendering is and some qualitative work in a national coordinating sense that gets this right? When you deliver through Meals on Wheels, you have a conversation and make something of the person’s day, even if it is talking about the weather, but how do you write that sort of thing? Meals on Wheels is a good example, but it just applies right across the board in welfare.

Ms Briggs—I think a good place to start is with what is competitive neutrality, because that is the term that is bandied about often in this sector.

Mr ALLAN MORRIS—How hard is it to actually define that though?

Ms Briggs—Yes. I am going to draw, I think, on the words of the Department of Finance and the Industry Commission, who might be able to help us a bit, Mr Morris.

Mr ALLAN MORRIS—Maybe not.

Ms Briggs—Generally competitive neutrality means giving all sides a fair go. That means that their tenders or their bids should be on a comparable basis. The Industry Commission says that it relates to where firms compete on their inherent strengths and weaknesses, irrespective of ownership. I will come to that in a minute.

Mr ALLAN MORRIS—You should preface it by saying that it is an assumption that all areas and locations and service potentials have an equal starting point—in other words, that operation size, infrastructure and all the other things are also of some equality, so their actual starting point in a general sense is, in fact, equivalent. They never actually say that, do they?

Ms Briggs—No, they do not often say that, no. In terms of the Department of Finance they argue that competitive neutrality requires that competition between in-house and external tenderers is fair, and that assessments of relative performance against the evaluation criteria for tenders is made on the same basis. From a government department’s perspective I think one of the most obvious elements here in terms of the competitive

tendering process is that government departments include in their bid the same sorts of costs that a private sector agency may have to bear, for example, tax. Similar arrangements can apply in the welfare sector, where an organisation may have free accommodation and so on.

In relation to community organisations, they may be seen as having an unfair advantage when tendering in competition against the profit organisations, because they are not looking to make a profit. In certain circumstances they have got tax exemptions and they may benefit from the free labour of volunteers, and occupy buildings—as I said—which have been partly or completely funded by government or otherwise.

Mr ALLAN MORRIS—Or have tax deductibility on—

Ms Briggs—Yes, or have tax deductible status.

Mr ALLAN MORRIS—Which is often not available or not known, and cannot be known because of the privacy provisions.

Ms Briggs—Yes. Under pure competitive tendering rules, organisations would be expected to cost all of those elements into their tender bids, and that is quite a challenging process, I think, to address.

Mr ALLAN MORRIS—And you really cannot check them?

Ms Briggs—Yes, it is very methodologically difficult to do that.

Mr ALLAN MORRIS—More than that, it is actually an invasion of privacy. The tax office cannot tell you whether or not what they have told you is correct.

Ms Briggs—Certainly we would have to take the information given to us by the tenderer on face value, but of course we would do all we could to confirm that, and we would look at similarities in other areas that would enable us to do that.

CHAIR—I still want to pursue this fixed price, this definition. I just want to be satisfied. Your view is that the fixed price process is an interim arrangement. Why is that necessary? Does that minimise any risk? Why does that process seem to be the universal approach?

Ms Briggs—Certainly we would see it as minimising risk and minimising disruption. It is not our intention to unnerve the sector, but nor are we pushing in a great hurry to go to beyond fixed price tendering. For example, at the moment within the portfolio our competitive tendering arrangements are largely in terms of our administrative support areas of the portfolio rather than in the program areas, such as disability services and the aged care services and so on. We believe that it is a more secure environment for the providers if we look at a fixed price in that context.

The other thing I did want to pick up on, Mr Chairman, was your earlier question

about what we are doing in terms of the accountability framework itself. In addition to the sorts of agreements and performance indicator measures I was referring to earlier, I alluded to the fact that we were moving progressively to tighten up our assessment of performance in various parts of the program areas.

Within each of the program areas affected in this field of welfare services, there is a whole series of different mechanisms that they use to assess performance and the outcome of their programs, and it does cover things like Meals on Wheels and so on. But often that is done through the states, for example, or through other providers or in conjunction with them. They are refining those arrangements over time and seeking to improve on those arrangements over time.

Similarly at the broader macro-level of the portfolio, we are working progressively to refine our understanding and our concept of what our performance measurement and indicator requirements might be, and we are building on those each year. But this is not an easy process in its field and it is taking time to get those working in an effective way. One of the major problems that we have is that there may well be a lot of information and data in the sector, but how do we bring that together effectively, and in a good time series to enable us to monitor those arrangements?

Our general view is that in terms of performance assessment itself, rather than have a series of one-off evaluations, it is far better to have in place some indicators with some concrete data that does enable us to monitor changes over time. But we are working toward that, and I would not want to say that I feel that we have developed that to the level which we would like to see it developed to.

Ms ELLIS—I want to take you back to an earlier statement and ask you on the basis of that statement what services in the welfare sector you believe should not be considered for tendering into the outside world?

Ms Briggs—Our general view is that we need to look on a case-by-case basis.

Ms ELLIS—So you do not have a view on that yet?

Ms Briggs—We do not have a view, as a portfolio, on the extent to which we would go to competitive tender, no.

Ms ELLIS—Would you agree that there are some areas that you would need to consider in that light? Do you have a view, at this stage, that it is more than likely that some areas should not be put out to competitive tendering, as welfare services?

Ms Briggs—We do not have a view either way at this stage, no.

Ms ELLIS—In terms of accountability, the Ombudsman and others have had some very interesting comments to make about accountability when government distances itself further from delivery of services, particularly in the area of welfare services. I am wondering what your view is in terms of how you define that accountability question

when you contract services out. If there is something that is inappropriate in delivery of services, who, in fact, does end up being accountable? If I can just elaborate a bit, that can take in appropriateness of funding, and whether adequate services are being delivered, let alone errors that could possibly occur. I am putting that question to you in the broadest possible sense of accountability.

Ms Briggs—I take and appreciate your point. The accountability issues are fundamental to the entire arrangement. That is one of the reasons why we are looking at this on a case-by-case basis, rather than moving into competitive tendering on a blanket basis. Clearly it is not possible to identify the outcomes achieved from each of the series of different funding sources, and it is more realistic to look at holistic outcomes for people, and that is what we are trying to do. Could you just repeat that?

Ms ELLIS—The Ombudsman has made some very strong comments that as governments of any colour or any level move into a system where there is a distance—a very distinct distance—between government and the recipient of the service, the question of accountability will be a very big question—and has been in some cases already. In the area of welfare services I have a very strong concern as to where we draw the line in terms of accountability. Does the problem with the service remain with the contracted provider, or does it come back to government? If the former is the case, then does there need to be a regime set up to almost replace the role of the Commonwealth Ombudsman?

Ms Briggs—This is a very difficult question.

Ms ELLIS—It is, but I think an absolutely essential one.

Ms Briggs—I do not think there is any correct or single answer to this question. You would expect that the provider of a particular service would be responsible for the delivery of that service. However, in practical terms I think we all know that where government contracts out, ultimately the taxpayer looks towards the government for maintenance of standards and for the outcomes of those particular contracts.

That would certainly be the case under the current arrangements that we have within our portfolio. That is not to say that our department would not look very carefully, or would not hold the organisation to account if there was a problem with the provision of the service.

Ms ELLIS—Can I suggest that, from my point of view, there should not be any further contracting out of welfare services until that particular aspect is in fact absolutely clarified—not, I believe, on a case-by-case basis, but as a matter of policy.

CHAIR—But services are already being contracted out.

Ms ELLIS—I know, and that is the very reason the Ombudsman is making the comment.

Ms Briggs—I suppose I should comment there, Mr Chairman, that in some cases it

might seem curious or paradoxical, but contracting out can actually clarify the rights of accountability. I do not think we should lose sight of that.

I was interested in a conversation I had only this week with my four colleagues who were in the Department of Social Security, now in the new Centrelink organisation. They were saying very strongly that they feel that the people who are working at Centrelink have a much clearer view of the lines of accountability under the new arrangement than they did under the older arrangement. I do not think we can deny that. I think we also need to consider that as we are moving to improve our assessment of performance of organisations, we are probably in a far better position today than we ever have been before to ensure that the customers are actually getting a good level of service.

Ms ELLIS—Maybe I am looking at it a little bit more politically and not wanting to see a situation where any government can say, 'It's not our fault; it's the fault of the contractor providing a service.' Can I just make one more comment? When we make decisions as a community, as a parliament, in the environmental area, we have what we call environmental impact statements. I am wondering whether social impact statements should not be considered in some way in terms of the contracting out and the realignment of welfare services, so that we have a completely separate way of viewing them. Rather than just viewing them from the point of view of the Department of Finance or of efficiencies from the bureaucratic or government point of view, we could also view them from a social impact point of view as well, so that we can have a much broader view of what in fact may be the outcome from another measure. I am wondering if you would have a view on that.

Ms Briggs—In terms of an individual contract, that might be quite difficult because some of the individual contracts we have are incredibly small.

Ms ELLIS—Sure.

Ms Briggs—You would not want to put an organisation, or indeed a program or government area, through that sort of micro-management. There has to be a question of balance in all of these things. Perhaps you could explore for me a little more what you have in mind.

Ms ELLIS—Let us take disability services per se, which are, as you say, an area of vulnerability for the recipients of the services. Let us just say that maybe you need an social impact statement earlier in the process to say, 'What will be the social impact for the receivers of services in the disability services area if we start to contract out services?' I am not meaning that all individual contracts be put to that, but the philosophy of contracting out within particular areas of welfare services.

Ms Briggs—I do want to emphasise that, for the most part, our disability services now are fully contracted. Indeed, a number of those are in terms of tenders for the provision of services.

Mr ALLAN MORRIS—Apart from the CRS?

Ms Briggs—Apart from the CRS, yes.

Mr ALLAN MORRIS—Which does offer some significant services in relation to counselling.

Ms Briggs—That is right. Our own view would be that we would take very seriously issues associated with the social impact of a major change in terms of provision of the service. Certainly that would be one of our primary concerns in terms of looking at any of these sorts of arrangements.

Ms ELLIS—In the Melbourne hearing we had quite an interesting discussion on more than one occasion on the terminology that is used down there between outcomes and outputs. Some people who gave evidence to our committee made it very clear that they do not appreciate measures of output so much as they appreciate measures of outcomes. I was wondering if you had a view on that.

Ms Briggs—If I could just come back to the former issue first, I think one of the things that I probably should have said is that it is not necessarily the case that under these sorts of arrangements a social impact statement would be necessary, because competitive tendering may not affect the continuity of service provision at all. In terms of outputs and outcomes, we have thought a lot about this in our portfolio. I can probably table for you a copy of an occasional paper that we have completed only recently. It covers some of these issues.

It is certainly our view that it is inappropriate to look simply at output measures and that there does need to be a proper balance between the outcomes of policy and output. That is certainly the department's view, and we are looking at performance measures in that context as we move towards an accrual accounting framework in the Commonwealth sector. That would enable us to assess those things.

Mr ALLAN MORRIS—This is just an observation. Your question essentially, I suspect, is much more to do with the philosophy and the territorial dispute over decades between the CES and Social Security. In fact what we have actually seen is an absorption of one philosophy into another; so that may give much easier clarity to those providing the service. I would think from the point of view of the client—and I will still call them clients rather than customers—it may give them in fact quite a difference of service and in fact quite a disadvantaged service.

When one part of the government was looking after income support and a separate philosophy was looking after their employment seeking, that differentiation was for many people vastly more valuable than a single agency which somehow absorbed both of those. It may be simpler to administer and simpler for the department to have a philosophy, but I submit that for their clients it is actually much worse.

Ms Briggs—That of course remains to be seen.

Mr ALLAN MORRIS—I am just putting that on notice because I think there is a

short-term tendency to say, 'Well, this is all simple and much easier,' but in administrative terms—certainly I think in the longer term, from the client's point of view—we may find that in fact there has been a substantial disadvantage or a substantial weakening of their rights in terms of those two often quite disparate aspects of their requirements.

Coming back to it, in line with the move towards contracting out, and so on, there was also a second strand running at the same time for some time, which was best practice, which was based on quality. I have not seen one word or one sign coming out of the department in recent times that that is still a major aspect. In theory, if one was using world's best practice and high quality systems, then the whole question of tendering and competitive pricing and all the rest of it becomes secondary. Total quality of services actually takes into account both cost and performance and client outcomes and so on. Can I ask where the department is up to? I see very little about quality implementation and monitoring and feedback.

Ms Briggs—I suppose one of the problems with using terms such as 'best practice' is that they mean different things to different people.

Mr ALLAN MORRIS—For quality.

Ms Briggs—I apologise for that.

Mr ALLAN MORRIS—I accept that.

Ms Briggs—Within our submission we have set out a number of ways that we are trying to improve the quality of services that we have. I suppose one of the key ones of those would be accreditation of service providers. Progressively in our areas of welfare services what we are doing is setting down general standards that an organisation would be required to meet in order to achieve accreditation within our system and the funding that is associated with that. On page 42 of the submission we list those sorts of things and they include child-care quality improvement and accreditation systems, aged and community care—

Mr ALLAN MORRIS—Just stop for a moment and explain that. I still cannot see anywhere in the department's performances or activities where it actually defines what that means. I do not see that, whether it be HACC or whether it be in aged care. I see accreditation, but that is someone going around measuring. Quality is actually internal to an organisation and is self-measuring. I do not see the department having a requirement for a particular quality system. There appears not to be one agreed upon. There was an attempt some years ago to develop within each area a quality system which was visible and relatively universal, but that appears to have been dropped.

Ms Briggs—That is simply not the case. We do not have with us the subject area experts from the child care, the aged care and the disability areas, but what I could do would be to provide the committee with far more detail than is in the submission on these quality initiatives.

But I do think it is very important to put on the record that we do have seven quality initiatives that are running or are in train. I think I should list them for the record. They are the child-care quality improvement and accreditation system; the aged and community care quality assurance program; the home and community care program national service standards; the Aged Care Standards Agency; the national disability service standard; the development of the quality assurance model for the hearing services industry; and the national mental health service standard. That is quite a serious initiative.

CHAIR—I suppose what we really ought to be looking for are some additional suggestions. There is a theme through a lot of the submissions that there ought to be some national working body to establish clearly and overcome some of the state boundary problems that exist. When you study useful suggestions to achieve that, Mr Morris has quite correctly identified the need to get that right. Let us go beyond what you are already doing.

Ms Briggs—He is saying he wants a single organisation.

Mr ALLAN MORRIS—No, what I am trying to suggest is that I look at the reports and, say, the nursing home accreditation checks, where you go in and you actually look at things and you tick boxes. That is a check and that is your accreditation system. I accept the accreditation system, but in any other area a quality system actually has an in-built process. It has an in-built complaints process and it has an in-built monitoring process. It has an in-built data collection and data reporting process. That is not accreditation. There is a big difference between accreditation and an intrinsic quality system.

Part of the quality system of course is value for money. Part of the quality system is the effective costs and the effect of various aspects of it. It seems to me what you are putting forward now was put forward by the department three years ago soon after the HACC inquiry. I do not think we have made any progress at all. We are simply repeating the same things now that the departments were putting forward years ago in terms of the other areas. I am not denying the quality of care in many areas has improved. It has more been an external process than an internal process to the organisations. Quality is internal, not external.

The concern I have is that we are now pushing more and more towards cost, and the cost of a service, and less and less towards the intrinsic quality performance. We go along and say, 'If they meet these criteria, then we'll accept their costing.' So the accent on accreditation can in fact build into it a cheaper service, but intrinsically a lower quality service.

Dr Amies—The child-care accreditation, Mr Morris, is a sector development. It is not something which has been developed simply by the department. It is developed through an independent body in conjunction with the industry. The whole focus of that accreditation is self-scrutiny by the child-care delivery organisation, so that, as you say, it is an in-built quality measure.

Mr ALLAN MORRIS—I am less knowledgeable on child care than on home care and nursing homes, by the way.

Dr Amies—That is the sort of model that we are looking to, to move to initiatives which are agreed with the industry on a national basis, with the focus on self-scrutiny and peer scrutiny and less on an external assessment simply coming in.

CHAIR—Is it better to do that sector by sector rather than have one just basic sector?

Mr ALLAN MORRIS—Sector by sector.

Dr Amies—Yes.

Mr ALLAN MORRIS—I am mindful of the time and I have got a couple of issues I wanted to raise, but what organisations are saying to me is that an equivalent quality of service costs the same. There is not much point going to competitive tender if they are required to provide the same quality of service. It will cost them the same. So the notion that you will get more efficiency by competitive tendering can only be the case if in fact either, firstly, you do not have a quality system, or secondly, people are not observing it. What I am trying to put to you is—and I will not perhaps ask for an answer now—that that in fact poses quite a substantial philosophical contradiction. An equivalent quality of service in a country like Australia with similar wages and all other things should notionally provide a similar cost.

In a sense, your fixed price contracting is based on that philosophy. So you are fixed price contracting based upon a notional equality of outcome and yet you are going to competitive tendering, which then takes the lowest price. So the welfare community would like that question answered in perhaps a more thoughtful way.

I want to get to another thing here quickly, which is perhaps even more important. Perhaps you might respond to that separately in a note, because I think it does raise something that you may have to think about more seriously. It is, if you like, one of the key concerns of this inquiry from people who are making submissions to us.

The thing I want to raise with you is that it seems to me that the logical next step in aged care, if we take where we are moving in the last year or so, is competitive tendering for nursing home and hostel services. We are now moving very strongly towards HACC tendering, and what I wanted to try and do was to ask you to reconcile for me the current system of recurrent funding and of accommodation bonds with the competitive tendering, which would be a logical next movement for the department, where organisations could in fact put up competitive tenders to provide nursing home beds effectively at a lower price, which would therefore offer savings to the government in terms of the cost of nursing homes and hostel services. Has any work been done on that? If not, could you go away and perhaps again give us a note about how you intend to implement that next logical aspect, particularly in terms of competitive neutrality and the other doctrines that you pose in your report?

CHAIR—I think we have got to deal with what is, rather than what is perceived as what might be.

Mr ALLAN MORRIS—You cannot say we have competitive tendering for HACC services and not say that we should therefore have competitive tendering for hostel and nursing homes services.

Ms Briggs—As I have explained, the way we are approaching this issue is to look at each step on a case-by-case basis. We have not moved to that step—

Mr ALLAN MORRIS—I am aware you have not moved to it. I would imagine that amongst the department's analysis of its budget and its directions, it would be unthinkable that you would put so much effort into tendering and contracting out for HACC services without also a continuing implication. So the questions I am asking you—and I am not asking you for your responses now—are these. Firstly, has any work been done on the possible model for a contracting out of competitive tendering for hostels and nursing home services? Secondly, if not, why not, obviously, because that would normally be the case, and how could such a process be done? Thirdly, wouldn't there be possible savings available to the government if in fact you were to contract out those services, so that nursing home beds or hostel beds were let on a tendered or competitive price basis? They are things I would not expect you to answer on the spot.

Ms Briggs—We will take that on notice.

CHAIR—Take that on notice. I am just conscious of time. There was one issue that I just must question. Can you give us any example of where a genuine competitive tendering process has been observed by the department yet, or have we not yet gone beyond this concept of a fixed price?

Ms Briggs—At the moment, the process of this is on outsourced administrative-type support services. We do not have the open tender process competitively that you are talking about in terms of the welfare services, mainline services, that I am aware of.

CHAIR—The question is this. We do not have an example of a genuine competitive tendering process. As far as the Commonwealth is concerned, and your department's activities, you do not really yet have an example of a genuine competitive tender?

Ms Briggs—Can we take that on notice?

CHAIR—If there are, I would like some assessment of what the outcome has been—good or bad? They are not all bad. There are some quite good examples. We are about to talk to the Department of Veterans' Affairs, and from my electorate's point of view we had a really good outcome from a good process, for a service that was not delivered before and is now currently being delivered.

Mr ALLAN MORRIS—We might just probe that, Mr Chairman. We might just

test that out. I find it a bit hard to believe, so I might just test that out with the witnesses here.

CHAIR—By the time we finish the inquiry we will probably be able to do that.

I thank the representatives from the Department of Health and Family Services for their time today. Please check with Hansard in case there are any clarifications of points they have. We look forward to you responding to those questions on notice. Indeed, at any time we are happy to receive additional information.

[10.16 a.m.]

CALLIONI, Mr Patrick, Branch Head, Planning Standards and Veterans Services, Department of Veterans' Affairs, Keltie Street, Woden, Australian Capital Territory

WATSON, Mr David Roderick, Branch Head, Rehabilitation and Special Services, Department of Veterans' Affairs, Keltie Street, Woden, Australian Capital Territory

CHAIR—I welcome to the table representatives from the Department of Veterans' Affairs. Before we proceed I wish to point out that whilst this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as contempt of parliament. All submissions received from you have been incorporated in published volumes and were distributed as part of the inquiry. If you wanted to make an opening statement before we proceed to questioning, I will give you a opportunity to do that but you need not feel the need to read in your evidence already because we have received and read that. Do you wish to make an opening statement?

Mr Callioni—No, Mr Chairman, but I might hand over to the committee copies of a publication. It gives some background information as to how we go about deciding whether to contract out or not and how we should do it. That may help the committee in its further deliberations.

CHAIR—Could you just give us a brief run-through of any range of services that you currently contract out, and bear in mind any that you offer via a process of competitive tendering to test the market and the nature of the competitive tendering process, whether or not it is via fixed pricing, because the committee has realised that there is a need for some distinctions between processes.

Mr Callioni—May I seek clarification on the question of the breadth of the coverage of the question? The title of the inquiry refers to welfare service delivery. There is an issue in our department, in our portfolio, as to whether much of what we do is covered by the term 'welfare' or whether it is not, because certainly from the veterans community's point of view they will not see what they receive by and large as being welfare; they would see it as being an entitlement or by way of compensation.

Secondarily, even within the context of welfare, I wonder whether the provision, for example, of actual care in hospitals would be covered by the committee's—

CHAIR—Welfare is a broad term. I am aware that the Department of Veterans' Affairs conducts considerable counselling support activity, which in broad terms is part of ensuring that veterans are aware of what their entitlements are, any difficulties they might have in having access to services provided by other agencies, and advocacy on their behalf. That is what I perceive the Department of Veterans' Affairs providing. The whole other process I can accept is provided by their entitlement, so perhaps those two areas of advocacy and counselling.

Mr Callioni—I will speak about one, and perhaps my colleague can speak about the others. The extent of our competitive tendering in those areas has been so far quite limited to a couple of situations—one quite recently in Victoria, in Mildura in fact. I heard you mention VAN, Mr Chairman. Our set-ups in Victoria ran a competitive tendering process for the provision of VAN services in Victoria, which include some of the activities to which you referred earlier. That was won by, I guess, an offshoot of the local government authority. My colleague Mr Watson might speak about some other examples closer to the counselling end of the spectrum.

CHAIR—In respect of that one you referred to, was that a genuine competitive tender or was it one of these lump sum defined tenders?

Mr Callioni—No, tender documents were provided as close as possible to what one would do in a standard commercial arrangement. We had four tenders, from memory.

Mr Watson—Mr Chairman, in the domain of counselling, the Vietnam Veterans Counselling Service has gone out to tender for the provision of an after-hours crisis contact and counselling service on a competitive basis. In fact, it did so for the second time earlier this year, and that was an arrangement that was quite clearly a competitive one. It was a published call for expressions of interest and submissions, undertaken with due process and culminating in a contracted arrangement.

CHAIR—At this stage do you have a process in place that monitors the outcomes and whether they deliver the objectives you have set?

Mr Watson—Yes, we do. We have requirement in the contract for reporting and we do seek feedback and we collect feedback from our customers and our customer base, and the ex-service organisations are a good avenue for that as well. Also we have quite responsive arrangements for understanding whether that particular service is working appropriately, both through the contract arrangements and through liaison with our client base.

CHAIR—To get back to your earlier suggestion, Mr Callioni, about the breadth, if you have any concerns about how veterans receive their aged care support and a range of others, HACC service, home help—there is a plethora of services they receive—do you have any concerns at all that you would want the committee to be aware of as to whether or not a change in the way that is delivered via the contracting out, the competitive tendering process, may be placing veterans at a disadvantage?

Mr Callioni—‘Comfortable’ might be too strong a word, but we are satisfied at the moment that veterans are getting what they need, by and large. Of course, there will always be exceptions in particular cases and in particular areas; no system is perfect. Our view is that moving into the future, given our expertise in the managing of purchases and purchased services, which is quite considerable, we will be able to continue to deliver to veterans what they need regardless of what means of delivery is most efficient at the time. In this publication we make clear that we look at contracting out, to use the broad term, on a case-by-case basis. We do not have a policy to contract everything out; we do not

have a policy to hold everything in. We try to find the best and most efficient way to deliver a service to our client group. If it involves competitive tendering, that is what we will do. To this point it has been fairly limited in this field because I think in this area the development of competitive tendering has been fairly limited in Australia in any case. It might grow, but we are quite confident that we have the skills and expertise and the understanding of our clients in ways to measure performance that would enable us to continue to satisfy the needs of our clients.

Mr ALLAN MORRIS—You mentioned the Vietnam Veterans Counselling Service, Mr Watson. How did you assure yourself that the service you accepted on a competitive tendering basis was not in fact an inferior service?

Mr Watson—We established quite clearly a due process for procurement, for a start. We advertised, as I described earlier, and got something in the order of five responses, I think it was, and that satisfied the competitive aspect. But that is not essentially what you are inquiring about. The criteria that we established called for submissions against those criteria to make statements about competence, coverage, willingness, capacity and all those sorts of things, and a process of inquiry to explore and investigate those responses is also part of the evaluation.

Mr ALLAN MORRIS—Can I just go slightly further with this? Secondly, one of the concerns coming from the welfare community has been the possible development of monolithic services. In other words, because you are going to tender, the bigger agencies are more able to tender more competitively because they have got more resources and administration and so on. So you in fact end up, if you like, with one big provider. How do you balance that in terms of you having more services out there available to actually compete?

Mr Watson—In a sense that is an interesting call. In this particular instance we were looking for a national service. In essence, what that meant was that we had looked for somebody that was to be provided or was able to be provided out of one site. So that did not preclude anybody, from the point of view of needing to have a network or not, or being in one or multiple locations, from actually participating in the process. We simply looked for a certain range of skills and a certain competence, a certainty of the ability to deliver.

Mr ALLAN MORRIS—But the danger of creating monopolies?

Mr Watson—I would suggest there was not anything about what we were looking for that headed naturally in that direction. We were not looking for somebody to exist in a network state around Australia.

Mr ALLAN MORRIS—No. The fact that they are a relatively small provider, the cost of overheads and so on, means that their cost of service could be higher, yet their quality could be equivalent, simply because of their size. There is a danger that what governments will do is to create bigger and bigger providers until you eventually get a number of monopolies and no-one else tenders because they can't. In other words, you

wipe out choice.

Mr Watson—If I can put it this way, we were looking for value for money, for performance and capacity, and an understanding of certainty of the ability to deliver what we were looking for, and we were in no way conscious of the point you make being one that should shape our pursuit of those objectives.

Mr Callioni—If I may add something to that, Mr Chairman, obviously if there is a possibility then it would not be in our interests to end up being captured by a monopolist. Again, we take a strategic view to contracting out. We do not just roll into a contract with the expectation that it is the end of the universe. We would be looking forward at what is going to happen after that. If we saw a risk that we might seriously end up being caught up in a monopolistic exercise, we would take appropriate precautions. As my colleague says, in this case there was no indication that that might happen.

Mr ALLAN MORRIS—I will stop on this particular angle because, again, submissions have been raised. What I am doing here is echoing what has come forward in submissions from the community, saying that these are the kinds of concerns they have. The third one that is perhaps most relevant to that particular issue is the services in smaller areas. When you are going to fulfil your tender you tend to get the bigger agencies, and invariably the case in a smaller community is that there is no longer a small provider.

Mr Callioni—That is true, but again, citing that Mildura example, the tenderer, as I said, was an offshoot of the local city council. One of the other tenderers was the largest provider of services in Australia, which was Centrelink. That did not stop the local council beating Centrelink. Again, I think that can happen, but perhaps in the kind of business we are in it might be less likely.

Mr ALLAN MORRIS—I liked your chart, and I think what you have got there is a very logical and a very appropriate process to try and at least think it through. I guess you are trying to raise it within that chart, whether or not you have actually factored into it some protection for yourself in terms of future suppliers.

The final part, Mr Chairman, was this. We have been told by people, for example, at the hearing in Victoria that people are tendering and are getting something like one in five tenders. The cost of tendering is high, costing \$8,000, \$10,000, \$12,000 a tender, and they are getting one in five, so they are suddenly having to write across a lot of their costings, a lot of their money, to tenders.

Mr Watson—Which makes it harder for smaller businesses, yes.

Mr ALLAN MORRIS—Which again undermines their actual service. In other words, the danger is they become the best tender writers in the contract, rather than the best providers of services.

Mr Callioni—Again, there is a risk of that and—

Mr ALLAN MORRIS—What I am looking for is this: within your processes how do you actually protect yourselves and your clients from that kind of risk?

Mr Callioni—We have done so little of it in this area that it is a bit hard to say we have got an extensive repertoire. However, on the administrative side we have been in the business of contracting out for quite a while and running competitive tenders. I think our track record says that we have done it pretty well. I think if we move further down the welfare line to us contracting out, we would be able to apply those skills to that side of the business. But to date we have got limited examples. I cannot really say with any degree of confidence that we are absolutely certain that that risk is not there. It is there, but so far we have managed to avoid it and we think we have the skills to continue to avoid it.

Mr Watson—If I can add to that too, Mr Chairman, I think also it is probably relevant to observe that the way we approach the marketplace is consistent with probably what the marketplace would expect. Even a small concern can develop a relatively templated approach to responding, and that could operate quite favourably for them in giving them a capacity to participate in these sort of processes.

CHAIR—In the submissions, you have given us guidelines for cost-effective service delivery in the Department of Veterans' Affairs. I am interested in 2.2, the idea of a checkpoint, if you like, for quality—the proposal for a centre of excellence. It might need to be established within the Department of Veterans' Affairs. What the committee is looking for is some clues and ideas as to what we might recommend to establish something like that which would set some standards, monitor it and keep it upgraded. How far has the department progressed with the establishment of such a centre?

Mr Callioni—It does not have a name, but we have actually now made a formal decision to establish something that will carry out most, if not all, of those functions. It happens to be my colleague's division, in actual fact, and I think David might have a significant role in it.

The role of that unit, together with what we do in my area, which is planning and broad policy, would be to cover each of those points. We are developing a purchasing profile at the moment to see what it is that we actually purchase. We are developing some competency standards. We are developing an approach to training in our state offices that is consistent with those competency standards, and the unit will then concern itself with managing our whole contracting approach; not just competitive tendering, but the whole of contracting, both for internal needs and external needs, for health care, for welfare or for anything else. We will have a multidisciplinary centre. They might not be in one place. We might have arms in more than one city—because, as you know, we are a large national organisation—but nonetheless we will operate as a centre of excellence in order to make sure, for example, that we are able to gather intelligence about the kinds of risks that Mr Morris was relating a few minutes ago.

If our intelligence is spread over a number of sites, it would make it that much harder to understand what is going on in the varying marketplaces. But at the moment we

are in the process of doing this, so we cannot really give you any guidance or any suggestions as to how it might well work. We would not want to claim expertise that we currently do not have.

CHAIR—But it is limited to within your own department's activity; it does not spread across the border. Are there other people involved from some of the agencies that you utilised?

Mr Callioni—Again, Mr Watson might be able to comment on this better, but we always work very closely with the professions, for example, in health care.

Mr Watson—We certainly do, and in forming arrangements for service delivery and provider arrangements—especially in the health domain—we deal quite consistently through the learned colleges and the associations and whatnot, in deriving arrangements and fees and so forth, that ultimately feed into macro-arrangements, if you like, rather than any preferred provider or competitive arrangements. But that is the nature of provision in the health sector, by and large, except where you get to institutional providers like hospitals. But on the matter of acquisition of hospital services, for instance, we are currently undertaking an exercise which fits neatly with the formation and establishment of the contracting unit to establish best practice in contracting with hospital services providers. This is as a first step into this territory and understanding how best to go about it.

CHAIR—Have you had any examples, as a result of that process, where you have had to make adjustments to a contract that has already been issued or upgraded, having discovered, 'Look, we didn't quite get this particular aspect of it right.' Sometimes it must be very hard to write a document that tries to write of how another human being cares about another human being.

Mr Watson—We do have what is generally regarded as a very complete and comprehensive, very effective hospital contract indeed which is used universally by us now in coming to arrangements with, for instance, private hospitals. That has been derived across time to be in general use in its current form and will continue to be. It is regarded in the industry as quite an achievement to get to where we have got in the formation of that document.

Mr Callioni—It does evolve. For example, with a contract of a major provider that arose out of divestment of two of the hospitals, as we have gone along we have learnt that perhaps one clause is a little more advantageous to one party than another. We have always found that that could be worked out if the partnership ends up on the right footing to start with. That information gets fed into the approach to the general deed of contract that then is more broadly applied. So it is an evolving process.

CHAIR—What will happen when the contract finishes? I assume it is an annual contract, or maybe it is a two, three-year—whatever the term. It would be retendered? What would happen then if you brought a new player into the field? What would happen with those aspects of continuity which are often seen as very important? Do you have

concerns about that?

Mr Watson—There is some variety in the approach. You would understand or you would appreciate, I am sure, that in some instances—I will probably confine the remarks to the hospital contracting arrangements that we make—our endeavour is to secure the provision of hospital services for veterans wherever they might be, but in many locations there is no alternative provider, so it is simply a matter of using the contract process to specify the terms and conditions under which we would do business, whereas one might have opted to not do that previously.

We have moved to a position of saying it is better for the parties to understand exactly the basis on which the business is being done. And you are right: obviously contracts terminate and can be renegotiated and renewed for a further period. So that is one scenario, certainly, where competition is a difficult element to draw into the process.

Mr Callioni—Continuity of care is extremely important to us and it is also a key concern both in the negotiation and the management of contractual arrangements. It would be something that would drive our consideration of a particular arrangement or prospective arrangement. We would not want veterans all of a sudden to be turned out of organisation X and parked in organisation Y, even if that were required by commercial circumstances. We would make sure that transition is managed.

Again, not on the health side but on another side, we were the first in Commonwealth tender mainframe services to Ferntree some years ago. We recently transferred that contract to another provider, the first time it has ever been done. Again, I think we have some skills involving that process of managing that shift.

Mr ALLAN MORRIS—One of the problems that poses is the problem which is potentially also posed in your welfare services, which is that as that provider modifies the database and modifies their computer software that is actually used to record the data, in a similar way the welfare provider builds up a database which effectively is there. If you wanted to go to a new provider servicing a similar constituency, you could have difficulty in transferring the software developed by that provider to a new provider.

Mr Watson - Is this IT?

Mr ALLAN MORRIS—No, I think it happens in both. I suggest your concerns about the IT tender are mirrored in the welfare tenders but you get a service provider, the database and the method they use to store, and the actual software development, and it is not necessarily transferring to the best clients.

Mr Watson—There are two aspects to that. Firstly, I think we need to be conscious of the fact we are talking about the health care domain here.

Mr ALLAN MORRIS—Welfare.

Mr Watson—Yes. Whether or not it occurs in the welfare context, the health

industry generally—look particularly at hospitals or even doctors—

Mr ALLAN MORRIS—I was thinking about things like counselling.

Mr Watson—If I can just make the point about these areas first, when we pay the bills we do so in such a way that collects a good body of data in any event. That becomes part of our database and we utilise that, as you would imagine, in both individual and aggregate form for managing the provision of health services across-the-board. Similarly, where there is an institution, say a hospital, that collects data and maybe keeps a file on the treatment services provided to an individual, that body of data can and does get made available to—

Mr ALLAN MORRIS—Not necessarily.

Mr Watson—It would be a contract with us.

Mr ALLAN MORRIS—I just put to you that the data recording methods and technology and the way it is recorded can in fact become an impediment to that data transfer.

Mr Watson—The technology involved?

Mr ALLAN MORRIS—It can be stored in a form which is unreadable to you or to your next provider, so your capacity to actually transfer a service from one supplier, after the contract expires, to a new supplier is partly dependent on the capacity to transfer the data about the clients to the new one and the compatibility of those two services. Secondly, we are back to the High Court case about who owns the medical information about the person.

Mr Callioni—In our situation we are the ones who pay the bills. The veterans have a relationship with us that is unique. We are not like another health fund. We have been around for 80 years and we have a very close relationship with our client group. We have an extremely good body of data that has been collected about particular veterans.

Mr ALLAN MORRIS—So are you saying that with veterans' medical data, unlike everybody else, you own the data the doctor has about your veterans, and not the doctor?

Mr Callioni—No, I am simply saying that we are in a fortunate position because of our relationship with our veterans and with the medical profession. We do not have any problem getting the data that we need.

Mr ALLAN MORRIS—We would appreciate a note about that because I am sure the Medicare system would love to know—or I would—how the data that my doctor has on me is available to me. If you are saying that your doctors and counsellors and so on—that you own the data in their files—

Mr Callioni—I did not say that. I simply said we have access and can get the data that we need.

Mr ALLAN MORRIS—I would love to know how, because the High Court decision was that you cannot.

Mr Callioni—That is the nature of our contractual arrangement with these people.

Mr ALLAN MORRIS—Perhaps you could give us a note as to how it is. I am sure the minister for health would love to know because of the possibility of High Court cases or more legislation as to actually who owns that medical—

Mr Callioni—May I clarify one key difference between us and Medicare? The situation with Medicare is that Medicare pays a benefit on your behalf to the doctor. In this case it is not a benefit paid on behalf of the veterans. The repatriation commission, the Department of Veterans' Affairs, actually pays the bills. You are party to the contract.

Mr ALLAN MORRIS—Even when you pay your own bills you still do not own it. The High Court case said that the doctor essentially does. Mr Chair, this is actually a very critical question. The High Court ruling was that the intellectual property is the intellectual property of the doctor, not the person who pays for it.

Mr Watson—Can I help to clarify this?

Mr ALLAN MORRIS—Perhaps there is no answer.

Mr Watson—If I can make one more statement, I might be able to help, and that is to differentiate between the body of data that one needs for clinical management of the patient—which resides with the doctor and may indeed be passed from clinician to clinician, or indeed from institution to institution—and the data that we need to administer, to pay the bills, to understand the appropriateness of care, and so on.

Mr Callioni—We will provide you with a note.

CHAIR—I think we would need a note on that. It is beyond our reference.

Ms ELLIS—I am conscious that we are out of time, so I am going to be very brief. Can I just say that in the introduction, in this booklet, I am pleased to see that it says that you maintain and, where possible, improve service to the veterans. This, after all, is the very reason for the department's existence. Can I ask, with that mind, when you make a decision or consider making a decision in relation to contracting out, what is your main motive? Is it because it may be a cheaper way to do it or do you consider a service can be better provided or should be examined for better provision by another method of delivery?

Mr Callioni—In a general sense, for us this is always a complex issue. All those motivations are there, but we are there to provide a service to the national community,

obviously looking after the taxpayers' interests in so far as it can possibly be done. Our intention when we contract out or when we have competitive tendering is to get the right service delivered to the right place at the right time or the right quality for the right price. So the priority is not the price.

Ms ELLIS—Do you have a view that there are some areas that you just would not consider for contracting out?

Mr Callioni—In welfare?

Ms ELLIS—In health or welfare?

Mr Callioni—At the moment, no. We decided, for example, to retain the Vietnam Veterans Counselling Services—not to contract those out. Perhaps my colleague can speak about that.

Mr Watson—Against a background of the need to be conscious of contestability, we have examined the counselling service to understand, refreshed, the appropriateness or the best means by which we might deliver those services. Indeed, we are conscious of cost and quality and the market's ability to provide such a defined product or service at all. So balancing off all of those considerations, you can arrive at a conclusion that does not simply take account of cost.

Ms ELLIS—If you decide to go ahead and you contract a service out, and let us for the sake of the argument say it is a 12-month period—do you do it in 12-month lots?

Mr Watson—It depends what the nature of the service is. Where there is a service that is readily available in the marketplace, and there will continue to be so, you make your choice about the term of the contract by understanding the market dynamics and what your own needs are. Where you are letting a contract for a service that may not exist, it might require somebody to gear up in order to respond. It makes good sense to recognise that and to enter into a contract for a period that helps to amortise the set-off costs and recognises—

Ms ELLIS—So for the sake of my question, say that you give a contract out and initially it is for a 12-month period—or let us say a two-year period; that is a bit irrelevant. At the end of that time do you then have another open process or do you go back to that particular service provider and renew, or do they go through some tests?

Mr Callioni—We will make a decision depending on the type of contract and the—

Ms ELLIS—I am looking for how it continues.

Mr Watson—Can I offer this. In the instance that I mentioned earlier of the after-hours counselling arrangements, yes, we went back to the marketplace with a complete new process.

Ms ELLIS—If the service provider who currently has the contract, recontracts, retenders in an open process, or, in a discussion with you, comes up with their new proposal and you say, ‘Look, we think that’s terrific,’ but their actual costings have dropped somewhat—they have said to you, ‘We can now do it for X amount less’—do you examine the quality that may be coming out as a result of that? Is there a risk, probably in an open process of renewal, that a service provider could walk between becoming more efficient and becoming more competitive for the sake of maintaining the contract? How do you make that judgment? And if the service provider who is currently operating that service does do that, do you then ask questions about what has happened to the service quality?.

Mr Watson—Quality and performance are factors, indeed, during the period of the contract and the monitoring process, and they are certainly factors in any renewal or any retendering process in which the existing provider participates.

Mr ALLAN MORRIS—This is a very quick question which may require a further note. The minister assured the parliament this week that prisoners of war and other veterans would not need to pay accommodation bonds. Will you be calling tenders for access to nursing home beds for veterans as to who pays accommodation bonds, and will you be calling tenders as to who will offer a bed at the cheapest rate in terms of those accommodation bonds?

Mr Callioni—I think we ought to take that one on notice.

Mr ALLAN MORRIS—I suspected you might have.

Mr Callioni—I am not really acquainted with the detail of that.

Mr ALLAN MORRIS—Certain people are not going to have to pay accommodation bonds because presumably the government is going to pay them. What I want to know is: how will you know? Will you call tenders?

CHAIR—The question is already on notice, Mr Morris. I was just leafing through the documents that you have provided, which are really quite good. In fact, I would like to make sure that we incorporate them into the evidence. You have given a comprehensive process in chapter 5 on how the competitive tendering and contracting out process works. I was just wondering, in detail, when you would advertise that a tender was available. Would you accept a tender from all and sundry, or is there some sort of pre-accreditation, pre-listing process entered into to make sure that people completely unqualified do not make a bid—that they have got some preliminary idea of what the expectations are, and so forth?

Mr Watson—I think it is important to recognise that when publishing the request for expressions of interest, or whatever you would call that part of the process, it is important to give a sufficient explanation and specification of what you are seeking to procure, and to offer other documentation and contact arrangements to clarify that; you diminish as far as possible the prospect of people misunderstanding what you are seeking

to procure and misinterpreting to the extent that they put themselves forward into a process that they perhaps are not equipped to participate in.

CHAIR—So you would advertise an expression of interest. You may not necessarily invite all of those expressions of interest to actually submit a tender.

Mr Callioni—It would vary.

Mr Watson—Yes, from instance to instance.

Mr Callioni—If we understand the industry very well, we might take a particular course of action. If we do not, then we might do it differently.

CHAIR—We thank Mr Watson and Mr Callioni, the representatives from the Department of Veterans' Affairs, for coming along today.

Resolved (on motion by Mr Allan Morris):

That the document *Guidelines for Cost-effective Service Delivery in DVA* be incorporated in the transcript of evidence.

[10.54 a.m.]

BASHFORD, Mr Graham, General Manager, Business Development, Centrelink, Tuggeranong Office Park, Athllon Drive, Tuggeranong, Australian Capital Territory 2900

GOLDSTEIN, Mr Michael, General Manager, Contestability and Contracts, Centrelink, Tuggeranong Office Park, Athllon Drive, Tuggeranong, Australian Capital Territory 2900

CHAIR—Before we proceed, I wish to point out that whilst this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as proceedings in the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament. The submission already received has been incorporated in the published volumes of submissions and already distributed as part of the inquiry. There is no need for you to make detailed reference to that, but you may wish to make an opening statement, either of you or both of you, before the committee proceeds to question you. Do you wish to make an opening statement?

Mr Goldstein—No, we have got no opening statement.

CHAIR—It must be a pretty busy time for you all and we appreciate you making time to talk to the committee. The reference that has been made to the committee is to consider the impacts of the competitive tendering process in reference to welfare service delivery. That term in itself is quite broad and it spreads right across the sector. I was wondering if you could explain to the committee the role of the Commonwealth Service Delivery Agency. I need to know whether that is really specifically defined as Centrelink and about the relationship between your client departments, and I would like some feedback on how your reforms are currently proceeding.

Mr Goldstein—I might start by just talking about what our role is. The government established Centrelink to provide an efficient and customer orientated service for a range of policy departments, if I can put it that way. It was basically to be a one stop shop for government services, so that people could get a broad range of government services either delivered to them or coordinated for them, or information on those services in one place. We are in the process of getting that established. We started off at the beginning of the financial year. We were really only launched, as you know, last month by the Prime Minister, and we are very much in an establishment phase at the moment.

CHAIR—There is a huge range of activities within a whole plethora of Commonwealth government services provided through your agency, but are there any problems you have encountered so far in attempting to deliver this huge range of activities?

Mr Goldstein—Graham could probably add a bit more to it. When you set up a new organisation you always have some teething problems, and as we try to incorporate

staff and programs and computer systems and everything else into new premises and things, you get the odd hiccup. I have to say that it has been relatively trouble free. There are always some teething problems, but they have not been the generally significant type. Graham might like to add to that.

CHAIR—Do any of those problems specifically relate to the contracting out and tendering process, if we just stick to the terms of reference of the committee? I can imagine all sorts of other difficulties you have had. What about the concept of contracting out?

Mr Bashford—By client departments or by us too?

CHAIR—By you too.

Mr Bashford—To other organisations, which is basically—

Mr Goldstein—I guess one of the things you have got to understand is the role that the two of us actually play. Graham is about business development and bringing in services that we can provide for a fee for other government departments. I am about looking at market testing and seeing what we send out ourselves into the open market.

In terms of actually market testing our own support services, we do an enormous amount of that, and always have. I was previously with the Department of Social Security where I was in charge of what was then known as the Resource Management Division, which basically had all the people, the money, the property and the contracts and stuff, and we did quite a bit of contracting out to support the role of Social Security, and did quite a bit of outsourcing as well, if I can put it that way. In January this year, or February—I cannot remember which now—we outsourced our property management. It is all of our offices basically around the country, and we did that jointly with DEETYA. It was really one of the largest property management outsourcing deals that had been done in Australia.

Our expenditure alone was in the vicinity of about \$150 million, and then DEETYA's was even greater, I think, from memory. We went through the whole process of going to the market for that, awarded a contract to a new company that was known as Knight Frank Price Waterhouse in January or February, and are now operating under that contract—and operating quite well. We certainly had teething problems initially. Part of that was getting all of our data on all of our properties which had been previously been held by the Australian Property Group, and they did not have particularly sophisticated computer systems, and it took us quite a while to gather all of the data on our properties from them and move it over to the new supplier of that service.

But since we have actually got that information, got our database up and the company has come to fully understand our operations, I feel that it works very well now. They are very responsive to our needs. They are experts in the real estate business. We were never experts in the real estate business; we were a small fish in a sea of sharks, basically.

CHAIR—That is an administrative environment. We are specifically interested in the welfare aspect, and your response to that.

Mr Goldstein—In welfare terms, we tend to contract services in, to provide services for other departments.

CHAIR—Yes.

Mr Goldstein—We do some support things in terms of delivery of welfare services. For instance, we would outsource the printing and mailing of our pensioner concession cards and those sorts of things outside our organisation because it is something that is a distraction to us almost. You have to have specialised equipment. Even though we have large volumes, various companies, because they do this for a broad range of organisations, would do much greater volumes than we would do. So we do that sort of stuff. Graham can certainly talk about the stuff that we are doing for other departments, which is probably what you are more interested in.

CHAIR—Yes.

Mr Bashford—You would be aware that we are set up as a purchaser-provider situation, so the departments themselves are responsible for policy. They purchase off us the delivery of the services in relation to those policies, and as we go down the track we will certainly be looking to try and reduce the costs and improve the service. It is early days yet, and of course we are coming from a background where we were a process driven, cash accounting organisation. We are moving down the track of accrual accounting so that we understand the true costs and, as Michael said, a customer driven type organisation.

CHAIR—You are in effect, to some extent, the tenderers.

Mr Bashford—Yes, we are the providers.

Ms ELLIS—There are still services that you do not contract out; for instance, the payment of moneys and others. Can you draw a line around the things that you do not believe should be contracted out, and why?

Mr Goldstein—Of course, you have to realise we have only been in operation for four months, but our view at the moment is that we probably would not give an absolute no to any service being contracted out. We would really look at it from both a business and service delivery point of view.

Ms ELLIS—What do you mean, from a business point of view?

Mr Goldstein—Does it make good sense in a business sense to outsource something? There has got to be a cost benefit to us, or there has got to be some benefit that we would have to achieve, either for the organisation and the government or for our customers themselves. For instance, there could be times when you would actually have a

service that might cost you more to outsource, but you could get a lot more expertise that we could not recruit. The example that comes to my mind, which is not really welfare, is in the IT area, where we employ a large number of contractors because we cannot always get the type of staff we want to do some specific programming things. But we would never put a fence around something at this stage and say, 'No, we wouldn't do it.' We would really have to look at the circumstances.

Mr Bashford—Because at the end of the day we are there to provide the most efficient and effective service to our clients. If that means that we can do a better deal in terms of service provision and costs by brokering out that service, then that is what we will do.

Ms ELLIS—Can you define for me your clients?

Mr Bashford—Yes, they are any Commonwealth departments. Our core business is the delivery of services to the community.

Ms ELLIS—Yes. Correct me if I am wrong, but Centrelink is the area, as you just said, where departments come to you and you do not see yourselves as serving individual members of the community. You are serving departments who serve individual members of the community. Is that right?

Mr Bashford—There are two aspects to that.

Ms ELLIS—I want to get this clear.

Mr Bashford—Yes. Obviously we provide a service to individual members of the community, and we call those people our customers. But the work comes from client organisations which are the departments of state, and we call those the clients. So we get it both ends, if you like.

Ms ELLIS—Give me an example of where a customer of yours is direct to you, not through another client. I think I have got the terminology right.

Mr Bashford—All our customers come to us. None of them of course pay us, but they all receive services from us directly over the counter.

Ms ELLIS—I understand that. I am just trying to get the links correct. A customer is the person individually in the community; the client is a department.

Mr Bashford—Yes.

Ms ELLIS—What customers come to you direct without coming to you through a client?

Mr Goldstein—There would be none in the sense that they are all there under customer department policies.

Mr Bashford—Every service we do is through a client organisation. That is how we get our money. We do not get grants.

Ms ELLIS—That is what I wanted to understand clearly. The next question is this—and I have asked other witnesses this. In terms of accountability of delivery of services, the Ombudsman had some very strong remarks to make about the distance that is being created between government and customers in terms of accountability. In the past it has been a very clear link. Now it is starting to become a rather muddied link in some ways, when a person like an ombudsman looks at direct accountability. What is your view on that?

Mr Bashford—Clearly, for policy issues, the accountability is with the government departments, we are accountable to our clients for the way that we deliver the services on their behalf.

Ms ELLIS—There is a fairly circuitous road between the customer and you delivering the service.

Mr Bashford—I do not think so. I think it is fairly straightforward.

Ms ELLIS—If a customer has a problem and wants to complain about it, or makes some note about it, who is the accountable body: you, the client or the government?

Mr Bashford—If it is a complaint about operational aspects, the actual physical delivery of the service?

Ms ELLIS—Yes, a customer has a problem with what it has used.

Mr Bashford—Straight to us, yes.

CHAIR—What happens if they are not satisfied? Where do they go? If they have a response from you, where do they go after that if they are not satisfied?

Mr Bashford—I guess all the normal processes are in place. They can go to the minister; they can go to any appeals body; and there is obviously a plethora of organisations out there that represent the customers.

Mr ALLAN MORRIS—Most of them have been defunded.

Ms ELLIS—Yes, that is not a problem to these gentlemen. Can I just pursue this a little bit further. Do you see any difficulty under the new arrangements? You call yourselves a business in terms of how you are operating, so I want to get this line of accountability very clear in my head. I am taking the words of the Ombudsman to heart here, who has some serious concerns. What is the link between you, as a business, and the government, in terms of accountability? Are you the bottom line or is the government the bottom line? What is the arrangement between you, as a business, and the government in terms of delivery of service, when we get to the accountability point?

Mr Goldstein—We are covered by an act which makes the minister ultimately responsible. But as a start, if you go back to Centrelink dealing with the individual over the counter, that person actually arrives at the counter to do business with us on the basis of a service level agreement that is reached with the client department. Those service level agreements stipulate what the service has to be. Some performance and accountability requirements are also in there that we have to adhere to and to apply. If we miss on those, or the customer is unhappy, Graham is quite right, all the normal appeal mechanisms and the normal complaints mechanisms do apply. Ultimately it goes back up to the minister.

Ms ELLIS—Which minister?

Mr Goldstein—The Minister for Social Security. She is responsible for Centrelink.

Ms ELLIS—But the clients are responsible to their ministers.

Mr Goldstein—Yes.

Ms ELLIS—You are delivering the service for those clients. Which minister does the customer go to if the service is not a direct DSS service? I do not know whether they exist any more.

Mr Goldstein—There is no direct DSS services.

Ms ELLIS—So you are responsible to the Minister for Social Security. Health and welfare, or health services, is Dr Wooldridge; family services is Mr Smith. Where does the customer go in terms of accountability? Which minister? You are delivering the services. You are responsible to one, but you are doing the services on behalf of departments responsible to others. This is the question of confusion that I would like to try and clarify.

Mr Bashford—If it is a policy issue it is to the—

Ms ELLIS—No, it is delivery and acceptance—

Mr Bashford—Minister for Social Security.

Ms ELLIS—No, the minister for social service—maybe I am pushing you unfairly here—is not responsible for the minister for health, or the minister for family services.

Mr Goldstein—But she is responsible for the delivery of services that Centrelink has undertaken—

Ms ELLIS—Exactly, but they are not services that she is responsible for; they are services that have been commissioned to Centrelink by another department for another minister. I am terribly concerned about the legal link of accountability when you look at the role of a Commonwealth ombudsman as the example. I am just very concerned that

this is a little bit confusing, because the Minister for Social Security should not have to answer—and I do not think can—for Dr Wooldridge or Mr Smith.

Mr Goldstein—But she can answer for a delivery problem.

Ms ELLIS—Exactly. But you have been commissioned—

Mr ALLAN MORRIS—How can you decide whether it is a delivery problem or a policy problem, or if it is both?

Mr Bashford—In effect, if a problem crops up we have relationships with each of our clients where we both sit down and decide what action needs to be taken to figure it out. The relationship between the client and Centrelink is my responsibility.

Mr ALLAN MORRIS—Let me go through a case with you. A young woman approaches Centrelink seeking young homeless allowance. You, in fact, refer them to a contracted psychologist that is under your engagement, to administer the sections of the act, which are DEET, in terms of the conditions of homelessness as regards a student. They are not approved. You have got the psychologist firstly, you have got yourselves secondly, and we have got the provisions of that set out; the section of the schedule actually sets out what things have to be met.

That person comes to me and says, 'I've missed out and this is wrong.' How do I determine which area is wrong? Was it the psychologist that you engaged, was it your administration itself, or was it in fact DEETYA's actual policy and guidelines? Who decides which one?

Mr Goldstein—In the first instance, I would think you would come back to Centrelink, because Centrelink certainly would be responsible for contracting the psychologist. We could then give a view whether it is a policy or an operational matter. I cannot tell from your example exactly what it is you are getting at in terms of the split between operations and policy.

Mr Bashford—But our relationship is such that if there is any doubt about it we would work together with a client organisation to resolve it.

Mr ALLAN MORRIS—If you take the homeless allowance, one of the criteria is that the young person has to be at risk, for example, if they return to the home.

Mr Bashford—Yes.

Mr ALLAN MORRIS—And how that is defined and interpreted varies from psychologist to psychologist; how it is interpreted varies from bureaucrat to bureaucrat; and it comes up constantly as an area where one needs Solomon to actually determine it. But it involves three separate levels of professional responsibility. Each level then says it is the other's problem. You say it is the psychologist's fault. The psychologist says it is a fault of lack of clarity in the guidelines. The department says you are administering it, and

therefore it is your fault, because you have not established sufficient administrative protocols with your psychologist.

Mr Bashford—There is no single answer, and that is why we always get together on those issues.

CHAIR—Have we addressed the issue of the tender process? Probably what Mr Morris is highlighting is an accountability process and who manages it.

Ms ELLIS—That is right.

CHAIR—But it seems to me that nothing has changed. The example you have quoted existed well before—

Mr ALLAN MORRIS—Let us discuss a further example then in terms of tendering out. There is a genuine concern amongst professionals that Centrelink will only engage psychologists, for example, who are user-friendly to Centrelink, not to their clientele. There is a real concern, particularly in the homeless area, for example, that if a psychologist is seen to be soft on kids, and not strong on families in the sense of pushing kids back to families and saying that the young person is not at risk, they will not get any referrals or they will not be re-engaged.

Mr Goldstein—I can assure the committee that is not on our selection criteria for engaging psychologists.

Mr ALLAN MORRIS—What is?

Mr Goldstein—We would be looking for their professionalism.

Mr ALLAN MORRIS—How do you decide that you do not either become a captive of a psychologist, or that a psychologist does not become a captive of you? How do you make sure of that in terms of your tendering out for those professional services? Quite frankly, I do not know how much work you have done in this area, but there is a very genuine concern that psychologists who are difficult, who disagree with the department about young people being at risk, tend not to get further referrals.

Mr Goldstein—In relation to the psychologist question, that is something that has just recently transferred over from DEETYA, and we basically inherited what has been there. But I can assure the committee that any time we were looking for some sort of professional individuals to provide services for us, it would be on the basis of who is the best professional person for that job that we could get at the time. It would not be on the basis of whether they held a particular view about individuals in the community.

Mr ALLAN MORRIS—I am looking at your submission in summary, but your decision, for example, there—and one that concerns the profession—is that you engaged a very small number of psychologists.

Mr Goldstein—That is correct.

Mr ALLAN MORRIS—So there is a very captive audience. There is an argument in fact that says that any psychologist should be able to offer that service, not simply ones that you vet, because of their profession anyhow. But why did you decide in these areas that you would actually only have a single psychologist or two psychologists?

Mr Goldstein—I do not think they have actually made that decision as yet. As I said, it has been only very recently that we have inherited this service and these people and I think we have really done very little.

Mr ALLAN MORRIS—In your submission you are currently reviewing that, which is why I am raising it because I think how you handle this could be very insightful.

Mr Goldstein—Yes.

Mr ALLAN MORRIS—So all I am trying to do is to flag that I would be personally interested as to how you would actually handle this issue, given the concerns I am raising, that come from the profession Australia-wide, that there is a real danger that the government gets the result it wants by getting the consultants it wants who have a particular view as to family versus children. There is to be a review of the provision of services for the role of occupational psychologists. When that review is done, will that become available or can you make it available?

Mr Goldstein—I do not know. I would have to take that on notice because I really know nothing about the review at the moment.

Mr ALLAN MORRIS—Our inquiry is going for many months yet, and I am sure you will be done before we are, but I would be grateful. That would give us a good insight as to how—

Mr Goldstein—We will certainly take that on notice. I know nothing about the review other than the fact that I know that it is going on.

CHAIR—Can I just ask whether your psychologists are tendered in a genuine document like that? Are they just selected? Is it a competitive process?

Mr Goldstein—I do not believe we have actually gone out and selected any since we have had them. They have transferred over from DEETYA and I think we have just taken on board what was there. If we decided to go ahead and do that some more, we would certainly look at the option of going out to some general form of tender. It would depend whether we needed them in a blanket form nationally or whether we needed them in specific areas. If we needed them in specific areas, we would probably advertise in those areas for expressions of interest for people who would like to provide those services, because we would do it on a contractor basis.

CHAIR—You would genuinely ask them for an hourly rate for provision of

consultant services?

Mr Goldstein—Yes, and we would have a specification of what the contracted job would be about and the sorts of qualifications and experience we would be looking for, and then we would make some assessment of the people who have actually applied.

Mr ALLAN MORRIS—There is one very small point about that. There is also a concern in the welfare community, in the youth working community, that agencies that provide services do actually have qualified personnel that provide other services who from time to time become prejudiced—or who the department can be prejudiced against because they are providing another kind of service—like maybe a refuge service. They may become the owner of all information about a young person, so they provide the employment service, they provide the Commonwealth service, and they could also be looking at providing the assessment in terms of homelessness or other such criteria. That is why I am interested in your review of that whole process, because it is a very complex area. People have found in the past that previous governments have had difficulties with it as well.

Mr Bashford—You are talking to two people who have no real knowledge in that area.

Mr ALLAN MORRIS—Yes. It is on the *Hansard* so in that way you might be able to provide it.

CHAIR—I think what I would like to be able to suggest is that as we conduct our inquiry—we will be at it for quite some time—we have you in again when we are further down the track, probably after that review is conducted, and see how you fared.

Mr Bashford—We can bring in an expert to answer those sorts of questions.

Ms ELLIS—The CES agent contracting out is not really welfare in the true sense of what we are looking at, but there are some people in the community who for a range of reasons have huge difficulties in obtaining employment. They are the hardest placed employment cases. In that vein and looking at our inquiry, can you tell me, through the contracting arrangements, very briefly, how it works in the CES agents area. I understand that there are different categories, I think, of clients in that range. The ones that are job ready and quick to place attract a certain amount of money for the agent, different from those that are harder to place. I think I am right in saying that.

Mr Goldstein—You are actually talking more about what the PEPes and EPEs are going to do. That is outside our area.

Ms ELLIS—That is outside your area?

Mr Goldstein—We will talk to DEETYA about that.

Ms ELLIS—Talk to DEETYA?

Mr Goldstein—Yes.

Ms ELLIS—So when you say ‘CES agents’, what do you mean?

Mr Goldstein—These are people that actually basically provide information or take applications, registration. Particularly in remote areas where we do not have a presence, they act as a presence for us and do very much the front end of the work. They do not do the actual placements as a general rule.

Ms ELLIS—So people who are looking for work go there to register?

Mr Goldstein—Yes, they might do that—or provide information to tell people that they can do that.

Ms ELLIS—I will not pursue that, but I was looking at the welfare of those people who are the harder to place people and how you monitor that in terms of the welfare of that person in obtaining employment. I think you know the category of people I am talking about.

Mr ALLAN MORRIS—In relation to your contact with mercantile agents, there have been some suggestions around in recent times that the government is considering sending those mercantile collection things other than the kind of debts that you currently do, that you are currently engaged for, and it is a general concern in the welfare community that people who have debts that may have been verbally waived or that are seen as being offset by missing out on benefits are now being recovered. For example, there is the old Austudy DSS problem where a person dropped out of education but did not engage in income support from Social Security; they were often seen to be offset and therefore were not recoverable. Is it the agency’s view that it will be extending this mercantile collection system into a wider range than it currently does and, if so, what will its implications be, firstly, on how you tender and, secondly, in terms of what rules you set in terms of the welfare sector, because many of these people are in fact involved in programs with other agencies?

Mr Goldstein—My understanding is at the moment that the only thing we are doing is collecting debts that we have always tried to collect ourselves—and then not terribly successfully at times. We are just using another source of debt collection and collecting the same sorts of debt that we have collected in the past. What happens in the future I have no idea, because at the moment we are still working very much on what has happened in the past, except using another means of collecting those debts.

Mr ALLAN MORRIS—Yes. Your submission says that you are only using agents where the written option is not cost-effective or the debtors’ whereabouts are unknown.

Mr Goldstein—Yes, we have not been able to track them down.

Mr ALLAN MORRIS—That is an understandable one. But what is happening right now is that there is a move towards collecting, if you like, four- or five-year-old

Austudy debts when a person dropped out of education but did not enrol with Social Security so in fact they missed out. This category you covered are debts where in fact the government is now saying, 'You are entitled to nothing at all' when they would have had one or the other. Often it is trauma, a burnout, or an emotional collapse at university or in senior years at high school, when a person dropped out of education in emotional turmoil and did not enrol in Social Security. Those debts are now being recovered when they were told verbally that they would be waived because they would have been entitled to an alternative benefit. It is too late to appeal because it is way over time, and some of them are four and five years old.

There is a theory about that you are going to transfer those debts to mercantile agencies. The welfare community is enormously concerned about that. If you are going to do that, it wants to know how you are going to do it, and how the mercantile agency would in fact administer with the sensitivity, given often the background that would be required, where many of the people involved are currently involved in programs in terms of mental health or other kinds of programs with welfare agencies.

Mr Bashford—I have no knowledge of that.

Mr ALLAN MORRIS—Perhaps when you come back you might respond to that.

Mr Bashford—Yes, I have taken it down.

Mr ALLAN MORRIS—Thank you. It is in the *Hansard*.

CHAIR—I thank Mr Goldstein and Mr Bashford for attending today. Perhaps you should check with Hansard in case they have an inquiry about contributions you have made. We will schedule at a later date another opportunity to talk to you. Thank you very much for your time. I might just call an adjournment.

PRITCHARD, Mr John Alexander, Policy Manager, Economic and Regional Development People and Community, Australian Local Government Association, 8 Geils Court, Deakin, Australian Capital Territory

CHAIR—Before we proceed I wish to point out that while this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament. The submission from the Australian Local Government Association has already been incorporated in the published volumes and distributed as part of the inquiry. You can speak to your submission or offer an opening statement. There is no need to feel compelled to read it. I invite you, Mr Pritchard, to make an opening statement before we proceed to questions.

Mr Pritchard—Thanks very much, Mr Chairman. The Australian Local Government Association is the peak local government body representing local government at the national level. We are an association of associations. Our members are state and territory associations of which councils are members. I have no intention of going through and reading aspects of the submission, but I would just like to highlight, I suppose, some preliminary comments in relation and response to the terms of reference.

In preparing the submission, ALGA consulted with its state associations and, in turn, state associations had discussions with councils. I think it is fair to say that we had some difficulty in interpreting the terms of reference, and therefore we have made no attempt to try to address all of the terms of reference. We have tried to restrict our comments to areas in which we have some experience. Our submission reflects principally our experience of contracting out of services from the Victorian experience. I understand that you had hearings in Victoria so I think it is probably more productive that we just begin with questions.

CHAIR—When you made reference to the terms of reference, are you highlighting the fact that we have a distinction between contracting out, which has in effect been happening for a long time, and competitive tendering as such?

Mr Pritchard—Yes. I think there are two areas of uncertainty from our perspective. One is on the competitive tendering, the definition and scope of what that means, and the second is what in fact welfare services are in the context of this inquiry, whether we are talking about integrated services which provide welfare services across the board, or whether we are restricting the interpretation of welfare services as being the role of the Commonwealth in signing transfer payments between the Commonwealth to the states.

If, in fact, the inquiry is about trying to come to terms with the breadth and scope of services delivered to people in communities, then there is a difficulty in separating out what is being contracted out, whether it is the administrative function or whether in fact it is the whole range of service, and meeting people's needs within that.

CHAIR—I think I would suggest, Mr Pritchard, that you read the opening statement I made both at the first inquiry in Melbourne and again today. We make it very clear that it is the government's intention to maintain responsibility for delivery of welfare services. It is the way in which it might conduct that via agencies, and whether or not the concept of competitive tendering has dangers in it, that we need to be alerted to, and how best to manage and ensure there is proper monitoring in place to ensure a good outcome. The essential purpose is always to deliver the support to the people who need it the most—that is, the customers, or clients, however they might be defined. I note that is a concern in your submission.

You also have concerns about what might be an inappropriate application of competitive tendering, which might result in fragmentation, and a less coordinated delivery of welfare services. With the Commonwealth assuming the responsibility, is your concern to do in fact with the statement you just made, or whether or not we have the capacity to make sure that the monitoring and management is done properly? Is it more a fear about what might be down the track, or is it a reality?

Mr Pritchard—I think it is based on our experience in Victoria, again, where competitive tendering has been widely applied as a result of the government initiatives in that state. Our experience has been that councils have worked over a number of years to ensure that there is a proper integration of services. Indeed, most clients in communities have multi-needs, as it were, so it is extremely difficult at a practical level to actually separate out the needs of clients into functional areas that might be, I suppose, currently handled by sectoral interests within bureaucratic arrangements. I suppose we are expressing the concern that, in a very practical sense, at a local level there is a need for integrated services, and the practical process of splitting up individual needs into various packages can and does offer great potential for a lack of integration. We have seen clients who are having to deal with a range of different agencies, which is really quite detrimental to the efficient delivery of services.

CHAIR—I suppose we are really looking for examples of that. Some of what I have particularly picked up through the process of inquiry to date is more a fear or an anxiety about what might happen. I am particularly looking for more tangible examples of what was not a good outcome. Let us face it: the outcome is what we are all interested in. Do you have any actual outcome that was completely unsatisfactory as a result of the process?

Mr Pritchard—I cannot speak with detailed knowledge, but from my own experience I would refer to deliberations and conversations with people from Victoria. The area of Meals on Wheels as a specific service has represented a major problem for councils. Clients of councils who receive meals on wheels are often clients that require other services. Meals on Wheels have presented many councils in Victoria with enormous problems, both in terms of quality of provision and, secondly, in terms of integrating the provision of that service with meeting and matching other needs.

The type of anecdotal material or information that we experience or hear is that people who are in receipt of meals on wheels have a range of other needs—maintenance

of their house, for instance, and we are talking about HACC service clients potentially—and the brief that has been given to the people who are providing meals on wheels does not include examination of the broader welfare needs of the client. Service delivery is simply parcelled off in terms of contract specification: ‘We deliver the meal, on time, several times a week. That’s it.’ They are not concerned—or have not been concerned, or it has not been written in the specifications—that they need to look at the overall welfare needs of that client, and refer that back to the mechanism that is actually trying to provide client centred service coordination.

Again, I am talking anecdotal material more specifically, and if you wished to follow that up we would need to speak directly with councils. But I would encourage the committee to focus around that issue of Meals on Wheels, because that has been highlighted to me by almost every council that I have spoken to.

CHAIR—It was certainly brought to the attention of the committee in Victoria. It is a good example actually. It is something we can all think about. It is a relatively easy thing, to write a specification that describes a menu and a meal on certain days—a proper meal—and, in addition to that, extending that to having it delivered on time and so forth. Writing into a specification all the other intangibles that happen when a person visits a home, such as entering into a little bit of dialogue with the person, finding out what their wellbeing is, their sense of how they feel that day, just casually viewing the state of the dwelling, and whether hygiene is being attended to, and then the responsibility of perhaps needed to advise there may be a need for additional services could prove difficult. But I am sure we can make sure that those things are attended to.

My own experience is that Meals on Wheels is often delivered by the service clubs, who have that sort of community concern and would do those things anyway, and they are doing it voluntarily. But that is a fairly simple thing to overcome. It would not be difficult to write a document and incorporate those other aspects.

Mr Pritchard—With due respect I think that the councils’ experience has been that it is difficult. Our experience and knowledge is that councils have found the area of welfare and community services the most difficult area for them to deal with in contract specification. Admittedly in the Victorian context, which we are basing most of our discussion on, the process of competitive tendering was introduced in a comparatively short period of time. In the space of two years many of our councils are now reporting back to us that it has not worked. They have been reluctant to go down that path, and they feel that the costs outweigh the benefits, and so have abandoned that approach. It might intellectually appear to be a comparatively simple task of writing up the contract specifications, but indeed there is very little evidence that people have got it right.

CHAIR—That is Meals on Wheels. What about other examples, other than Victoria, or even in Victoria itself? We certainly have evidence already on *Hansard* about Meals on Wheels in Victoria, but what else?

Mr Pritchard—I would be, I think, just guessing at a range of options, but if I could raise the issue of young people, I think young people represent an enormous

challenge to local communities, and councils in particular. We know that young people's needs in fact are very diverse, ranging from housing through to, in some instances, drug counselling and employment. All of those services need coordination if in fact the young person is to be provided with a properly integrated service to meet their needs. You prefaced your first question by saying you want some tangible examples. We are in the realms of speculation. I am not in a position to be able to give you those. I can only give you impressions and anecdotal material that has been conveyed to us by councils.

CHAIR—From the Commonwealth perspective, attempts are being made to make that a more centrally delivered provision, but what you are referring to goes beyond that to what are state and then extended local government responsibilities. The committee is interested in establishing some sort of national principles and is interested in tangible examples, rather than a concern about what might happen.

Mr Pritchard—I have information regarding a preliminary study in the Northern Territory where Aboriginal community councils have taken on agency responsibilities for a number of services. That study has indicated quite enormous shortfalls in the arrangements that have been made. Again, it may be a question of the design of the service, and the adequacy of the payments that are made under that. But clearly the practical experience has been that it has been implied to those community councils that if they do not take on the service, the service will not be provided. Those services are costing those communities quite considerably.

The community council of Yuendumu in the Northern Territory has taken on an agency arrangement for the Department of Social Security. The report that was undertaken by Coopers and Lybrand for the Northern Territory Association—you have not got this material in your submission—indicated the cost of the service was some \$43,000. Income received under that agency arrangement was \$23,500. There was a net shortfall of \$19,500 that the community itself is providing out of its own resources to provide what is essentially a Commonwealth service. While I am not speaking on behalf of Yuendumu, I make the observation that there is a substantial cost to the community in trying to provide those services under those arrangements, and clearly that is not a sustainable arrangement.

CHAIR—Is the document to which you are referring published at all?

Mr Pritchard—As far as I know it has been delivered to the Northern Territory association. I am sure that the Northern Territory association would make that available to the committee.

CHAIR—I would ask you to check. The committee would be interested in that document.

What about the concern in your submission about fragmentation? You have an example of that. What do you mean by that? Does some person have to actually go and see four or five agencies? How is that a concern? Bearing in mind that it has resulted because of the tendering process, those concerns might be there for other reasons. Can you make that clear?

Mr Pritchard—I take your point, and I think it is a fair point, Mr Chairman. Indeed, although the Commonwealth government has taken some significant initiatives in trying to bring together a one stop shop with their linking of services, I think a move towards contracting out of services will work in the opposite direction, rather than bringing those services together. This will depend on what the criteria for the allocation of service contracts are. It seems to me a simple point of logic that if housing services are going to be provided by a housing agent, and health services by a health service, and HACC services by HACC service agents, then there is potentially a whole range of other service deliverers, not necessarily connected in any way, who will be delivering services unilaterally. The coordination really becomes the responsibility of the contract supervisor, who is, in very many instances, very divorced from the actual delivery of the service. I think simple logic would indicate that that potentially represents a very real problem in terms of trying to meet a coordinated need.

CHAIR—So a response to that message would be one of ensuring that there is a more central coordinating point at least, which might get some support via a contract from different points, to ensure it is not fragmented. Would that be an adequate response to address your concern?

Mr Pritchard—Mr Chairman, I think the councils' experience is a reasonable one to draw upon. In the Victorian instance, where councils are very close to the community, at the point where they are supervising, under their purchaser arrangements, the delivery of services, those individuals and sections of councils are finding it increasingly difficult to manage the service delivery coordination issues.

Whilst they will be managing all of the contracts within the welfare umbrella, they are not in a position under the current contractual arrangements—and again I think it is quite a difficult intellectual exercise to imagine what words you would write into a contract—to make sure that the Meals on Wheels people were talking to the child-care people and to the people who are looking after the home maintenance, et cetera. The contracts themselves are not requiring that. Indeed, I am not sure whether contractors are really all that interested in that if it is not written into the contract.

Just on your point earlier about Meals on Wheels and the fact that welfare services are very often involved with the non-government sector and the volunteer sector, I think there is a tension between contracting out and meaningful involvement of welfare service people.

CHAIR—Have you any suggestions on how best to address your concerns? Do we need a national coordinating body to get some standards in place and make identification?

Mr Pritchard—I think it is the other way round, frankly. It is the coordination at the sharp end, at the delivery end. Councils have in fact prided themselves—local government have prided themselves—on their capacity to provide the coordination and planning of a wide range of welfare services. Councils continue to be willing to and are prepared to try and provide that role. However, with the current restraints that they are faced with, they are forced to make very deliberate decisions about what services they will

be involved with and what services they will not be involved with. If they were coerced into some process of competitive tendering to become service providers in their local community, given that they are also providers of service and purchasers of service themselves, I think councils would be reluctant to expand their role in that way.

We have argued for many years that in relation to councils' involvement in welfare services we would be prepared to enter into service contracts with other spheres of government, and I think that arrangement is prefaced and based on a fundamental belief that they would be done on a partnership arrangement as distinct from a contractual arrangement: that there would be joint setting of objectives and a mutual understanding of the outcomes and quality of the services which would be delivered; that a service contract would be signed between the funding agencies and councils; and that the coordination would be delivered by councils in an effective manner.

I think that model still has great credence in local government circles, and part of what I suppose our submission to you would be is that, rather than using a market approach of competitive tendering to improve the delivery of welfare services in the nation, improving and strengthening the partnership arrangements between the spheres of government would be a far better approach.

CHAIR—Can you offer any feedback on the many members of your association who would have successfully been awarded tenders from the Commonwealth? We heard earlier this morning from the Department of Veterans' Affairs that a municipality in Victoria is now in receipt of a contract as a result of its successful tendering process. What is their level of satisfaction with the process or otherwise? And are there any suggestions you could make to ensure that that is all done in a much better way? That is a good example where a service that was never provided is now being provided and the municipality is being used as an agency by the Commonwealth.

Mr Pritchard—I cannot speak specifically of examples. I think where we, as people interested in the delivery of welfare services, see good examples, we have to analyse what the success of the model has been and replicate that success. I am not sure, but I think councils are certainly willing to explore contractual arrangements with the Commonwealth. I am not sure of the specific detail with the veterans' affairs arrangement.

CHAIR—It was a successful veterans' affairs network of counselling support for veterans.

Mr Pritchard—Right. The question that always arises in our deliberations is whether councils are required to contribute matching funds to the delivery of that service. If they are, then indeed a partnership arrangement is established as distinct from a straight service contractual arrangement. Around Australia, councils are telling us that where they are joint purchasers of services—that is, contributing financial resources—

CHAIR—That would be HACC, wouldn't it?

Mr Pritchard—Mainly it is HACC, yes—that councils definitely need to be

involved with the overall planning, coordination and determination of outcomes as distinct from simply being a service agency deliverer.

Mr ALLAN MORRIS—John, if I can just go back a moment to previous times, one of the drivers of this issue is the fact that some years ago when we were doing an inquiry on family community care, we had evidence in Victoria that local government as a supplier were fairly inflexible. Often they did not work outside nine to five. Their prices were fairly high in terms of cost per hour for home care or home nursing and so on, and they were seen to be driven by the supplier rather than by the consumer. The other driver was, of course, the adjacency. One council would have a service and across the road there would not be a service. You had those tremendous differences.

That came through very strongly in the HACC inquiry that we reported on, and I think that concerned both local government itself and people hearing it. It seems that in recent times there has been much more of a move towards a more open system and a more quality based approach. Can you put that into perspective? We found a lack of complaint system and we found a lack of evaluation processes within service deliveries with the local government at the time. That was predominantly Victoria, which is such a big provider, as your report shows. Can you talk about that for a moment? One model is competitive tendering and contracting out and the alternative model is quality based, a model which is much more responsive and client driven? Can you canvass that for a while—as to how those changes took place and where they are getting to?

Mr Pritchard—Yes. I think that the issue that you touch on relates to the broader reforms that are occurring in local government and indeed all schemes of government at the same time. I think we are improving significantly our management capacity and our capacity to focus on client needs as distinct from systems needs and, as a member of COAG, the Australian Local Government Association and local government have been keen to participate in reforms which actually result in better client centred service delivery.

I think the Victorian experience is somewhat unique, and there has been a tremendous pace of change in Victoria. Indeed, Victoria has always been very much the leading state in terms of involvement in community services. Councils, under the compulsory competitive tendering requirements, have been forced to reassess their whole service delivery mechanism and they have improved significantly their whole management mechanisms.

There are, I think, two schools of thought in Victoria. There are some councils who have attempted to go down the path of contracting out of their welfare services and are finding that process difficult because of the lack of experience in writing outcomes based contracts, et cetera, and there are others who have just simply abandoned the exercise as being foolish and have, indeed, focused on quality outcomes and continuous quality processes, so that good management practices, the quality assurance programs, have been introduced. Continuous improvement programs have been introduced into their councils right across the board and they have been introduced into the welfare services.

I think in Victoria we might find that over the next few years there will continue to

be a separation between those councils that go down the competitive tendering process and those that do not.

In other parts of the country, councils are very reluctant to go down the path of the competitive tendering process. They are looking at Victoria with great interest. They are looking at the research evidence that is starting to emerge, and the jury is out on whether the contracting out process actually does deliver any financial benefits to anybody. But councils in Queensland are increasingly looking at their role in community services. They have not had a strong tradition in service provision. They are looking at their role in terms of planning and coordination and are enthusiastic about examination of that role, but they would do so in the context of quality management as distinct from a contract management process.

Mr ALLAN MORRIS—If you consider the pressure on federal parliamentarians that taxpayers complain about the fact that they pay taxes, we need to be confident that we are getting the best quality service for the dollars that are spent. In theory, competitive tendering offers us some reassurance that we have tested the market and therefore we are doing the best we can. We do not get the same reassurance from a continuous quality process, or we appear not to. That is the perception of it, so how do we reconcile that? What avenues are available to actually reconcile, to evaluate or to contrast using a competitive tendering model and a continuous quality model?

Mr Pritchard—I think it has to be trialled. I really cannot see that there are any mechanisms that are readily available to test. With the current methods of monitoring service provision, all parties have experienced difficulty in that and have expressed a keenness to see that change and improve. The Commonwealth would be well advised to move down a path whereby they would explore all options concurrently, rather than take a punt on a single approach. Without any real evidence to suggest that it is going to derive benefits, then I think there is real merit in going down a trialling process as distinct from a wholesale adoption process.

Mr ALLAN MORRIS—But the attraction of it, of course, is a political one in the sense that we are seen, as the federal government, not to be featherbedding local empires and so on. There is that kind of danger, and I think that what competitive tendering seems to offer is a political plus in the sense that organisations are forced to provide the best value for money. There is always a suspicion also about whether or not local government in particular, or others, are actually genuinely costing their services, or whether those costs are being cross-subsidised or in some way manipulated.

I guess in a way we are not getting much hard evidence about that. We are not getting any definitive analysis that contrasts one with the other. We are getting a lot of information on the cost of tendering and the overheads with that, we are getting whether the cost benefits are there or not, but I do not think we have got any submissions to date that actually compare and contrast the two models. Is that being developed? Is anybody working on that?

Mr Pritchard—I think there are a lot of academics who are exercising their minds

on that. There is a whole range of material. I have an article with me, 'An economic evaluation of contracting out and competitive tendering in Australian local government' by Barnes and Dollery. This article appears in the *Journal of Urban Policy and Research* in 1997. These academics are from the University of New England. I know that the university of technology, what used to be the RMIT, has done work in a publication called *Breaking the Contract*.

Councils themselves have, as I indicated, a relatively short period of only a couple of years experience in attempting to do this exercise. I do not think that anybody is in a position yet to be able to put a definitive case one way or the other. There is certainly a willingness and a keenness to explore different models to improve service delivery, recognising that the services that we have been providing can always be improved.

Mr ALLAN MORRIS—That is interesting. Perhaps what you might do before you go is give us the source of those two documents, because they might be of interest to us. There seems to be a lack of analysis. What we are getting is people's own ideas and own submissions and their own things.

CHAIR—There is a lack of proper analysis of cost-benefit.

Mr ALLAN MORRIS—So that might be helpful, John.

CHAIR—Mr Pritchard, looking at table 3 in your submission, which is break-up per capita state by state on welfare spending by local government, already we have realised Victoria has been quite focused. But just looking at the per capita spending, if you total the sums, it is around about \$100 per person in Victoria compared to the other states. New South Wales is \$55, roughly; Queensland, \$45; Western Australia, \$40-odd. Obviously these involve some partnership programs too. I would be interested to see how that is split up—what proportion of that per capita is coming from the Commonwealth. It might highlight why Victoria has had to address it more than any other state and move towards a market test for its spending on welfare. You may be able to answer that question now. It is certainly a question I would like you to give some thought to.

Mr ALLAN MORRIS—From my recollection, Victoria spends about 40 per cent of the HACC budget on local government. Is it 42 per cent in Victoria is spent by local government?

Mr Pritchard—Yes, that is correct.

CHAIR—That would probably apply to every state, would it?

Mr ALLAN MORRIS—No, in New South Wales about seven per cent of the HACC budget goes on the local government. That is my recollection. In Victoria it is about 42 per cent, so you get this tremendous differential being spent on the HACC budget, which is Commonwealth and state funded. In Victoria it is actually delivered by local government and that has been a major—

Mr Pritchard—It reflects an issue in respect of councils' perceived role of whether they need to be involved with human services as distinct from other services. It also reflects some of the geographic considerations and issues and the distribution of funds. The councils in Victoria have comparatively high populations and, certainly in terms of area and geography, are not as large as some of them in Queensland, et cetera. That reflects a whole range of capacity issues affecting states such as New South Wales, Queensland and Western Australia in particular. Those areas that are very sparse in population have very difficult issues to confront in terms of their capacity to finance and contribute funds to welfare services.

Indeed, I think the further into rural communities you get, the less involved councils are in welfare services. So the actual delivery of welfare services in rural communities is a major issue, and indeed there are very few opportunities to create a market. That is where the Northern Territory study was particularly of interest to us. There were simply no alternative providers.

CHAIR—Do you mean a supplier, not a market? The market is there. Those people desperately need the services.

Mr Pritchard—Correct.

CHAIR—The cost for the Commonwealth to provide it also; therefore the use of some agency provision is the way to deliver it. It certainly highlights that rural people are missing out. We would be interested in trying to find a way to correct that.

Mr ALLAN MORRIS—Not simply because John comes from a rural area.

CHAIR—Many of the committee members do, although as a Victorian I would not have cause to complain.

Mr ALLAN MORRIS—From my recollection, Victoria also has a very high spending rate on libraries per head compared to most states—something like \$2 to \$3 per head on libraries, compared with 50c in most states. That is another area of differentiation they have historically.

CHAIR—Perhaps you might give some thought to expanding that out. The question on notice is the break-up at table 3, spread Commonwealth and what is coming from ratepayers, and also some insights as to why there is such a wide difference between that. You have answered some of that in relation to Victoria and the other states. We could explore later. I notice that your submission concludes fairly stridently that the ALGA believes that in the absence of any clearly demonstrable benefits to welfare recipients the Commonwealth should not proceed with any proposals to increase the use of contracting out of welfare services. The Commonwealth has been contracting out for decades. I go back to my original question. You really have concerns about the competitive tendering process rather than contracting out. The committee has already realised there has to be a distinction between the two. Just as the last question, could you reaffirm that that is your view, or does your statement stand as it is written in your

submission?

Mr Pritchard—I believe our statement still stands. I think that there is genuine concern that the outcomes specification in contracts does not service well the community at this stage; that we have not developed the technologies; that we do not know how to write contracts adequately to ensure equitable distribution of welfare services and a delivery to meet individuals' needs as distinct from systems approaches; and that, I think, contracting out reflects a systems approach as distinct from a client centred delivery mechanism.

CHAIR—That is true. Utopia would be wonderful but it has to be affordable within reason. If somehow or other the committee is able to wave a magic wand and recommend some solutions to allay those concerns, you might be prepared to amend that statement. All right, we have got a job ahead of us. Thank you very much, Mr Pritchard, for coming in today.

Mr Pritchard—Thank you very much.

CHAIR—We appreciate your time. We will adjourn the meeting until 1 p.m.

Luncheon adjournment

[1.12 p.m.]

BRAITHWAITE, Mrs Janet, Executive Director, Australian Council for Rehabilitation of Disabled Ltd, PO Box 60, Curtin, Australian Capital Territory

WOODFORD, Mr Bryan, Vice-President, Australian Council for Rehabilitation of Disabled Ltd, PO Box 60 Curtin, Australian Capital Territory 2605

CHAIR—I welcome to the table representatives from ACROD. Before we proceed, I wish to point out that while this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of parliament. Your submission already received has been incorporated in the published volumes of submissions already distributed as part of the inquiry. I invite you to speak to your submission. You do not have to feel the need to read it, but we would welcome any opening statement either of you might be prepared to make before we proceed to questions.

Mr Woodford—Thank you, sir. ACROD does appreciate the opportunity to come before this public hearing of the inquiry into competitive tendering. Whilst we certainly do not wish to reiterate matters fully discussed in our written submission, we would like to briefly draw out what seem to us to be the key issues in the disability services environment, which will be characterised by competition and contestability.

At the outset, we would like to state that ACROD fully supports outcome focused funding. It fully supports quality accreditation of services and it fully supports enhanced choice on the part of those accessing services. However, ACROD notes that the disability services program is not a rights program and that there is incontrovertible evidence that large numbers of Australians with disability are in need of services but are unlikely to be able to access them in the foreseeable future. The issue therefore arises as to whether competitive tendering will generate efficiencies such that the capacity of the program will be increased.

ACROD submits that this is questionable. Indeed, we believe that competitive tendering could lead to a reduction in the number of service providers and a diminished level of services, particularly in remote and rural areas. We see that the relationship between cost and quality is a fragile one. If competitive tendering forces agencies to focus on cost drivers, it is likely that they will abandon people with the highest levels of need because they are the most expensive to support. It is also the case that the rigorous application of eligibility quality standards can foster a minimalist approach in an environment where cost concerns are paramount, for an agency might very well aim to achieve the minimum standards leading to eligibility and then stay there because of the expense and viability risks associated with going to the next step.

Further, agencies providing value adding services will increasingly question whether they can afford to continue this practice, and smaller agencies with comparatively high overheads will simply be unable to do so. We must also question the effect of

competitive tendering on organisations which have a strong philanthropic ethos driving them. Will this be maintainable in an environment increasingly concerned with developing and maintaining a competitive edge? Will donors want to make charitable gifts to such organisations, notwithstanding that they might have done so for years? Will volunteers still so willingly give their time? Even the submission by the Department of Health and Family Services concedes that these are worrying issues.

Implementation of competitive neutrality will clearly create a marketplace in which all profit agencies could thrive, but ACROD questions whether this has actually been thought through. As we have stated, when decisions are made purely on the basis of cost, and perhaps additionally on the basis of profit, we believe that people with the highest support needs will miss out, and the comparatively expensive services in rural and remote areas, being unattractive in bottom-line terms, will tend to contract and even close.

Both of these outcomes, albeit that they may well have been unintended, will confound the government's declared intention to enhance consumer choice. It is clearly in the nation's interest to maintain a strong and viable service providing industry and to avoid the development of super-agencies, whether they are corporatised ex-government instrumentalities or non-government. Either would be core in the field and they could act monopolistically.

That all said, I am going to ask Mrs Braithwaite if she could please comment on the current situation where we have a new Minister for Health and Family Services, and what we regard as a significant vacuum that has arisen out of the expectation that there would be some sort of funding reform package that would be released to Commonwealth funded agencies as far back as February of this year, whereas in fact this has not happened.

Mrs Braithwaite—Thank you. I just wanted to bring you up to date on that, because a large part of our submission does not address itself to the concerns from our members about what was to be in this expected new funding system based on the purchaser-provider model with funds tagged to an individual.

What has happened, as Bryan has indicated, is that this funding system has not eventuated. The former minister, Judy Moylan, just before she moved from that portfolio, had made the decision that the funding system that had been proposed to her, as we understand from the department, should not go ahead because it was too harsh. It would detrimentally impact on the viability of disability services and cause undue stress to people with disabilities and their families. The situation is too unclear at the moment with Warwick Smith just taking up the portfolio, but we believe that what will happen is that for the next two years the current block grant system of funding will continue, while other new funding options are extensively trialled.

For any new places that come out, no doubt the current system, which is a competitive tender for new places, will continue, but in many ways that is not what worries the industry so much. What worries the industry is how you keep viability of services where it was even proposed that existing service arrangements be retendered out.

In the proposed system, the worry is that the money is tagged for the individual, which is a great idea in principle, but how can a service provider be sure that they will always get enough customers, from whatever the referral system is, to ensure their service viability?

CHAIR—We probably could talk about the nature of that. It is a complicated agreement to be drawn up with the states, because it is part of our problems of being a federation. My information is this is a great impediment in giving us a settled solution to that agreement. Your point is that a block grant system be continued in the meantime. You are not being stranded.

Mrs Braithwaite—So far, yes.

CHAIR—What you are asking for is some determination so that some certainty can be put in place.

Mrs Braithwaite—I think for most of the people in the sector, even though we become impatient about what has happened, nonetheless it is probably a bit of a sense of relief if we can really trial new ideas properly and not just rush ahead.

CHAIR—You made reference, Mrs Braithwaite, in your comments, about competitive tendering. You mentioned the term, but how does that actually operate? Is it a strictly competitive tendering or some sort of block grant with a request for a schedule of rates attached or something? How does it operate?

Mrs Braithwaite—When there are new employment places announced, as there often are in the budget, and ads put in the paper, and people put in a tender for these new positions and they have got ongoing recurrent funding for the old position, if they win some new positions, then it gets built into their base grant, but it is actually a competitive tender situation for new positions.

CHAIR—Is a completely open tender one in which there are no dollars mentioned—it is just ‘This is the specification of what we require. How much would you charge for it?’—or is it something else? One of the things the committee has already discovered is some confusion about the terms of what is open tendering, competitive tendering and tendering to a fixed price allowance with a schedule of rates to be tendered. We are pretty keen to try and get some definitions on all this.

Mr Woodford—There is no price published in these sorts of advertisements. However, one would have to say that numbers are leaked and bandied around the industry. When I say they are leaked—

CHAIR—They are tested.

Mr Woodford—The benchmark figure that would be acceptable would be in the order of say \$7,000 per capita. It is a strange situation at the moment, and one gets the impression that it is not the price per se which determines whether the agency is going to

get the number of places so much as the environment that they are going to provide for the new people coming into the service.

CHAIR—I am really worried about this. I have been tendering all my life and organising tenders. Are you saying to me that an advertisement is put in place for a particular service to be delivered, someone makes a registration of interest and gets a copy of a specification, and there is no formal document that says there is a numerical value attached? You are saying somebody leaks the size of the contract?

Mrs Braithwaite—No.

Mr Woodford—Maybe ‘leaks’ is the wrong word.

Mr ALLAN MORRIS—In pre-tender briefings and inquiries there is a history of how much it cost in the past and the kinds of concerns of whether it was expensive or whether it was a good quality service. There are often informal briefings to possible tenderers as to the kind of ballparks that are involved.

Mr Woodford—That is exactly right.

Mrs Braithwaite—There is nothing shady about it. It is known in the industry. It is \$7,000 for an open employment place, \$10,000 if you have got a person with a severe disability, although that seems to be disappearing, and if you are lucky you might get \$5,000 for a person in a business service which you might call a sheltered workshop.

CHAIR—So, in a series of tenders, bids are lodged. There is a process after that by which someone makes a decision. How does that work?

Mrs Braithwaite—The state officers of the department may have a rating system on which they rate people’s tenders, and afterwards you can ask, ‘How much did I score on each one?’

CHAIR—So it is a qualitative process which takes into account experience, previous performance outcomes and things like that, is it? What I am getting at is suggesting to you that maybe the dollars are not the driver here. There is an emphasis more on quality.

Mr Woodford—As a service provider I have never actually seen those qualitative indicators against which our applications are measured. I have never seen those. It is also my understanding, adding to what Janet has just said, that the state and territory officers make a recommendation, but I believe the final decision is made in the central office.

Mr ALLAN MORRIS—And they do get varied occasionally.

CHAIR—These are always with state agencies, aren’t they, or are they Commonwealth?

Mrs Braithwaite—This is Commonwealth government money and it is Commonwealth officers at state level, the Department of Health and Family Services.

Mr ALLAN MORRIS—In conjunction with the state officers?

Mr Woodford—The state officers of the Commonwealth.

Mrs Braithwaite—Of the Commonwealth.

Mr ALLAN MORRIS—Yes, but would that be in conjunction with state departmental people, depending on the project.

Mr Woodford—I do not think so.

Mrs Braithwaite—With the post-school option program for young people with disabilities there is collaboration with the state.

CHAIR—I have got some understanding of the process. Your submission worries about things that might happen. We hear some of the forward thinking concerns you are expressing, but I am more particularly interested in hearing about outcomes which have been disasters or where the end result has not been adequate—the outcomes have not met the expectation of either the individual concerned or the organisation. Can you put before the committee tangible examples where your concerns have actually occurred, or are you simply thinking about what could occur?

Mrs Braithwaite—No. I know of some examples, for instance, in some states, where there is an element of competitive tendering that is more advanced than in Victoria. I had a phone call from one of our members who is running accommodation services that are funded by the states. He had an accommodation service of a group home for four people who are intellectually disabled, two of whom happen to be siblings. They had been running that service for six or seven years, and they had been told that it had to be retendered, and they had to go through a very expensive tender process. It was upsetting to the family, who had total faith in the non-government service provider. The last time I spoke to him, the outcome was not known, but it was known that the only other person that tendered was a commercial organisation, and he had concerns that they might be winning because of the way that they could employ staff.

Several members in that state—it was briefly mentioned in our submission—have rung me with concerns about the fact that they have now lost that wonderful sense of fraternity that they used to have with their fellow service providers, because competition means that now everything is commercial-in-confidence, and when he wants to talk best practice, how to make benchmarks, et cetera, he talks over the border, not within the state.

CHAIR—Going back to that example you gave, the organisation concerned lost the contract, are you saying?

Mrs Braithwaite—No, there is some cycle and they are saying, ‘It is time for that

service to be retendered out.'

Mr Woodford—At this stage they do not know whether they are going to be successful in their tender bid or not, but if they are not, the implications for the people receiving that service are very significant.

CHAIR—Are you saying that it is improper for the government agency to market test in some way as to whether it is getting value for dollar in what it is paying for?

Mrs Braithwaite—Yes, I think it is. If you have got a long-term partnership with a service provider who may be accredited under your disability service standard system or whatever you have got, I think it is doing the wrong thing by the community to tender it out when you have got no reason for dissatisfaction. If you have had a scandal, abuse, by all means go for it, but otherwise, yes, I think it is improper.

CHAIR—How else does the department test whether it is getting a market dollar value? How else do you test that? You have got to test it some way to be satisfied.

Mrs Braithwaite—I am sure you can provide benchmarks on funding. It is quite easy across such an industry.

CHAIR—Set benchmarks.

Mr ALLAN MORRIS—Firstly, we can define prices for some services, and we know those, and other ones we cannot, so perhaps they can use the same method they use when they let you know how much per head a tenderer is going to have to bid. What I wanted to ask you is: the point you made there, Mrs Braithwaite, about the not-for-profit provider seemed to imply that some contractors could in fact be using different wage scales. In other words, they have, say, a private contract under the current industrial relations regime where their employees who are professionals are being paid at a lower rate than the award for that profession. Is that occurring, do you know?

Mr Woodford—It is definitely occurring.

Mr ALLAN MORRIS—So social workers, youth workers and community workers are getting paid at lower than the standard rates by some commercial employers?

Mr Woodford—We would have to agree that many of the awards in use in our industry are characterised by penalty rates which make a service very expensive to run. I can think of three agencies straight off the top of my head where mirroring arrangements have been set up where an agency receives government funding and then immediately subcontracts the money and the service to another agency, so the agency which is providing the service is actually at arms-length to the funder. They are not bound by the award conditions that the first agency would be governed by and they are able to operate their services much more cost-effectively as a consequence of being able to avoid those awards and those other features of employment.

CHAIR—But that would be catered for if the documents specified that people were required to be paid via particular awards. The quality of the tendered documents is the issue there, isn't it?

Mr ALLAN MORRIS—It would normally be the case that the current contractor may specify that, but if you have got a subcontractor, it is like the community options in HACC where HACC doesn't use for-profit services, but the community options could in fact contract out. So a second level supplier could in fact be using non-standard, but as long as the professional service is the same, as long as they are qualified personnel—

Mr Woodford—And the outcomes are achieved. My agency's funding contract at the moment contains a provision which says that I may subcontract some of the outcomes that the Commonwealth is buying from my agency, and the only prerequisite is that I am obliged to seek Commonwealth approval before going ahead with contract arrangements.

CHAIR—But your subcontractors in that sense would be bound by the same contract you are in honouring the terms of the specifications.

Mr Woodford—At the end of the day the objective is to achieve the outcomes that are specified in the agreement. That is what the Commonwealth's primary concern is, that X number of people, in my case, will receive and be maintained in full employment, or the Commonwealth's definition of employment.

CHAIR—But in a strict contractual sense, any subcontractor would be bound by the head document, so that would be simply a matter of requiring them to do that. If they do not, they are in breach. Your contract would be void by not making sure your subcontractors complied. Those concerns can be addressed if the quality of the document everybody is working to is correct.

Mr ALLAN MORRIS—Because the prime contract is outcome based, you would be required to perform in terms of the quality of the service, in terms of the accreditation of the personnel and so on, but not necessarily how those personnel are engaged.

Mr Woodford—Exactly right.

Mr ALLAN MORRIS—So they could be engaged on a short-term contract, on a casual basis or in a variety of ways.

Mr Woodford—Exactly right.

Mr ALLAN MORRIS—That is not clear in your document. Do you have any clear examples of that? I have asked you off the cuff and I am not sure whether you are prepared for that. I would be grateful if you have got any more details of that, because one of the concerns coming through in the submission has been a diminution of professionalism of the service. Part of that concern by some agencies was not quite as clear. What you are saying is that they see the welfare community becoming more casualised and less professional and being picked up as a kind of body hire service rather

than as a continuing professional service.

Mr Woodford—Yes, but I would not want you to infer from what we have said that these subcontracting arrangements have led to a diminution in the quality of the service.

Mr ALLAN MORRIS—No, but what people are saying is that the first step is the casualisation and, because it gets cheaper, then the next step further down may well be a lessening in quality as well because you have actually pulled away the long-term professional career paths. They have gone.

Mr Woodford—I do not know that there is necessarily going to be a lessening in quality but, as I said at the beginning of this, I believe you may very well find a minimalist approach where people will hike themselves up to the minimum level that they can get away with in order to be able to tender and stay there.

Mr ALLAN MORRIS—That is okay. What I am trying to say is that somebody will put to me that minimalist level today, but go out five years, and what will the minimalist level be in five years time? That may well lead to a lower quality of service. The question I am trying to ask you is in terms of contracting out. The chairman has said that, if a contract is properly written, it should not be possible for a subcontractor not to conform to the terms of the contract.

Mr Woodford—That is correct.

Mr ALLAN MORRIS—The question I am trying to ask is: what would it need to say to ensure that that could not be watered down by that kind of second-level or third-level contract supplier? You might not need to answer it now. You might want to think about it.

Mr Woodford—Yes.

Mr ALLAN MORRIS—At the moment they are outcome based.

Mr Woodford—They are outcome based, yes.

Mr ALLAN MORRIS—What would be needed? The argument was that they will need to be partly input based, not solely outcome based.

Mr Woodford—It is not just, however, the outcomes strictly which control the contract; services are also required, not only at the Commonwealth but at state and territory levels, to comply with disability service standards. The achievement of those standards is also a prerequisite of ongoing funding.

Mr ALLAN MORRIS—To ensure that that could not be watered down, what would need to be in that first-level contract? That is the question. I am not necessarily suggesting that you answer it now. You are suggesting in your evidence that people could

be paying less than award wages for different employment arrangements that may lead to a cheaper service, admittedly still with professionals and so on, which would mean that a non-government organisation, like one of the major organisations, would not be able to compete because they have got permanent staff on a proper basis. That undermines that professional service. There is another way of putting it, I suppose. That is not quite the word I meant. They are still both professional; it is just that those arrangements are aimed at cutting funds.

What would need to be in that first-level contract to ensure that we did not put service against service and encourage services to diminish the value of their work force or to make special deals to get a lower price?

Mr Woodford—If we can have leave to put to that to you later in the notes, it is an issue we would like to give some thought to.

Mrs Braithwaite—Can't you specify the competencies that the staff must have?

CHAIR—Yes, the document could say, 'Anybody involved in the delivery of a service shall have the following qualifications,' or whatever. Then if they don't, that is a breach.

Mr ALLAN MORRIS—One of the services pointed out that many contracts are let on an annual basis, and therefore no-one employs people any more other than on a casual basis. I do not know whether that is so, but there is a tendency to move towards short-term and part-time employment because you may not get another contract. So we are moving to a situation where ultimately people are seeing social welfare as less of a career choice now because the work that is available is not necessarily career work. It tends to be casual, often outside hours, often at lesser rates of pay, and that seems to be diminishing the actual career prospects. That has been raised with me by some people working in the field, and you raised it earlier in the sense of that service in Victoria, saying their competition was a for-profit provider who may well have special arrangements with their staff.

Mrs Braithwaite—Yes, and they feel that that is a little bit unfair.

Mr ALLAN MORRIS—So how do you make it fair?

Mrs Braithwaite—There are other unfairnesses in the playing field, no doubt, but one thing we should make clear is that in our industry, even though we represent the not-for-profit providers, people mostly think there is a place for for-profit providers. What you have to be careful about is coexistence. ACROD stands for only not-for-profit organisations, and we have had a very big look at this within our membership, and the membership decided they wanted to remain as a national body only of not-for-profits because that is the value base that they come from. They say there is a big difference between running a service to benefit clients rather than to benefit from clients. Nonetheless, they want to have a constructive relationship with that other part of the industry.

Mr Woodford—Can I just add to that? I entirely agree with Janet, but there are concerns where the outcome of the activity is to generate a profit. There would be an enormous temptation to cut costs in a range of areas. For example, in accommodation there is a whole range of things you could do associated with the quality of the food you provide, and how regularly you wash and change the linen. There are just so many ways in which one would be tempted to cut costs because the money would be going into your pocket. That said, all agencies are governed by standards which are applied and have to be met, but there is still that concern and it is coming through now.

To go back to that original question you asked when you said, ‘Are you able to cite actual examples?’, we know that we are finding it harder as an agency to work with people with high support needs, albeit that the Commonwealth government has declared these people to be a priority case. But the paucity of money available to meet their needs is inevitably driving us towards taking on board clients with lower support needs. It is just simply not possible to keep taking on people with high support needs in this environment where costs are being driven down.

CHAIR—I appreciate you making these comments. I was really impressed by your concern about rural areas, coming from one myself. The welfare agency delivery is very much through the not-for-profit associations right throughout rural Australia, but there is a paucity; it is just not there. I see constantly that if there is an environment in which not-for-profit sectors can have an opportunity, they just create themselves, and small townships get a service delivery.

Mr Woodford—Exactly.

CHAIR—It seems to me that there is an opportunity to use this outsourcing process to encourage more of that. There is absolutely no doubt that the quality is the focus; you mentioned the word ‘ethos’, Mrs Braithwaite. I like the comment on page 4 where you have said—because I know this is reality—that the not-for-profit sectors are the initiators of services, because they are innovative, they are right at the coalface, and often what is needed is for that input to come through, because every community might have a different way of delivering something that is nearly identical in another area, but it is a different process, because some aspect of the community is different.

I would appreciate your comment on that because from my perspective it is not all downsides as long as we get it right. Reading your submission, it is fairly stridently saying that your organisation is not interested at all in seeing any further growth of competitive tendering, but there must be some upsides that you could make reference to. In fact, your organisation must represent many of these not-for-profit agencies right throughout rural Australia.

Mrs Braithwaite—We do indeed.

CHAIR—It is not all downside, surely?

Mrs Braithwaite—On the competitive tendering angle?

CHAIR—Yes, it is not all downside.

Mrs Braithwaite—No, I do not think our members, as I said, mind having to put their hat in the ring to get new places. What they are concerned about is, once they are an established service, the idea that there should be any retendering of that for bureaucratic reasons, because they reckon if they pass disability service standards—and most of our industry is going into ISO9002 accreditation—they should have a secure place and a secure funding system, not something that is open slather every year. You cannot do that.

Mr Woodford—Particularly in things like accommodation services. But we believe that the whole notion of competitive neutrality is going to encourage for-profits into disability service provision. Per se that is not necessarily bad, and we have already canvassed the issues there. But one would have to question whether rural and remote areas are going to be attractive to agencies that are governed by the bottom line. I was recently in the Northern Territory and was talking to a number of service providers who commonly have two or 2.5 staff and they are working with five, six, seven clients, some of whom they have to drive 200 kilometres to visit.

The costs of running those services are very high. The difficulties of running those services are considerable. Frankly, I cannot see a Drake Personnel being interested in taking on that sort of challenge.

CHAIR—They are not interested now.

Mr ALLAN MORRIS—But on the other hand, one of the issues that has come up in the past has been, for example, a registered nurse who happens to marry a farmer but is not able to offer her service in terms of nursing and areas of disability or frail aged care because there is not a process that allows a for-profit provider as a contractor to offer services in that particular area. So we do actually have this kind of boundary problem, inflexibility problem, between services. We have seen examples where there were people who were totally qualified but were not able to work because they were not an employee of the provider, who may have been 200 miles away. Therefore they could not be used to offer a service which was actually very close by. So we have not been perhaps as insightful or as flexible as we could be—not because of the contracting process; it is partly because of institutional habits and attitudes, and we are all too busy doing our jobs perhaps to understand it. Anyhow, in your regional areas you may well find the amount of resources available is much greater than you know about.

CHAIR—Very often that notion referred to starts up an agency and creates the energy and a service ultimately gets to—

Mr ALLAN MORRIS—That is what I am saying, a straightforward for-profit agency rather than a not-for-profit agency, and so that coexistence question is fundamentally important. We often have the barriers between them that prevent them talking to each other, and that is part of the problem.

Mr Woodford—Can I just ask, Chairman, is Hamilton in your area?

CHAIR—No, it is not. It is south of my area, but it is typical.

Mr Woodford—The reason I ask is because I am shortly to leave my agency and I am going to head up a large agency in Victoria that has a facility in Hamilton, and that facility in Hamilton provides services to people with severe and multiple disabilities. It has been enormously problematic to this agency to be able to continue to operate this service, albeit that there is a very well documented need for everything that is done, simply because of the amount of money that the Commonwealth deems it appropriate to apply to that service. Because they have applied national benchmark figures, here is an agency a long way from Melbourne, which is the central administration base, providing a much needed service, and that service has been significantly compromised, and indeed has until very recently been in danger of closing down, because of cost drivers. I would be very concerned in a competitive environment about the ongoing capacity of a business such as that.

CHAIR—Yes, but it needs to be made clear: is that a result of in the past there being a block grant which was either biannual or annual, that every year they had to go cap in hand, which is a problem anyway? And you're absolutely right, I am confronted with that all the time. What the committee is concerned about is: is it because of the competitive tendering? Which of the two is that caused by?

Mr Woodford—It is the focus on costs.

Mrs Braithwaite—It is because of the economic rationalist mind.

Mr Woodford—Yes.

Mr ALLAN MORRIS—The cost per client per year.

CHAIR—Yes, I understand that. But that is not because of the competitive tendering process, because someone set a benchmark that was not right for a rural area.

Mrs Braithwaite—That is right, because in the rural area there is no work for this service, and they have been having to take disabled persons to work with from other areas to this particular service, and it has become very highly uneconomic. So you should say that for the rural remote service there should be an extra level on the funding, like a normal part of the system, and it is put into it and that would get over these particular problems.

Mr ALLAN MORRIS—What you would be saying though would be that the competitive tendering has helped push prices down, and it is pushing the prices down that has set the national benchmarks, which have in turn disadvantaged remote and rural regions in Australia.

Mr Woodford—That is exactly the point we are making.

Mrs Braithwaite—It is very complicated.

Mr Woodford—The other thing that has occurred is that because this is a large agency and is running multiple programs, it has frankly been able to subsidise the Hamilton operation out of other programs and other funding streams. In an environment of competitive tendering, where there would be an extremely explicit focus for the funding and the outcome of the service, I would suggest or submit that that capacity to cross-fertilise programs may very well disappear. In this particular case, Hamilton would have gone under a long time ago.

CHAIR—Can I just ask a question about the nature of that agency. Is it a not-for-profit church related group?

Mr Woodford—No, it is the Yooralla Society. So it is a not-for-profit, but it has got no connection with the church. It is a large traditional agency. It is called the Yooralla Society. It is based only in Victoria, but it is a large agency.

CHAIR—You are talking about a classic organisation that is going to deliver to the rural regions, which is your concern. I am pleased to hear you say, Mrs Braithwaite, that it is not all downsides, and I am very keen to make sure that this process results in a better outcome, better certainty, albeit the need to test whether there is dollar value.

Mrs Braithwaite—The welfare area is so varied—if you want to call it welfare—in the disability area. You have to say, ‘Where is it appropriate to apply competitive principles and where not?’ This morning I heard the department talking about Australian Hearing Services. A lot of that now has been contracted out to commercial providers, and you can set the rules and benchmarks and have quality control of that quite reasonably because it is mainly about the provision of hearing aids. The actual provision of human service to people with a wide range of disabilities is so much part of the community that frankly a lot of our member organisations and the people who support them just feel it is anathema to apply a lot of the competitive market principles to that. The government should be recognising the value of the contribution of services, and therefore supply a contribution in money to those services. You have to remember that the non-government sector does put its own contribution in, both in money and in manpower terms.

CHAIR—It is accompanied by a donation from the community, the broader community, which is taxation in a different form.

Mr ALLAN MORRIS—Even women power.

Mrs Braithwaite—A lot of women power, yes.

Ms ELLIS—Mr Woodford, I am distressed to hear you are leaving the ACT. Mr Woodford has a long association with Koomarri here. I am sorry to hear you are going, but we will talk about that another time. You mentioned the inappropriateness of contracting out accommodation services. That is a subject very dear to my heart, and I understand the reasons for that. Can you give any other examples? Can you see whether it would be possible for a process where contracting out has also a dollar price attached to it? That is one of the reasons why it is being considered. What would make the

contracting out of accommodation services appropriate? Would there be any way you could do it? And are there other areas of disability services that you could so cleanly excise away and say they are just not appropriate?

Mr Woodford—Our concern is to distinguish between the setting up of services when the process of putting a tender out may very well be appropriate; in fact it probably is. It is the continuation of services that would worry us, and particularly in accommodation. Without wishing to go over old ground too much, one can only imagine the distress that it would cause to residents in an accommodation setting if the funding of that service were to pass from one agency to another, with major implications for the staffing of that service, the way it is run, the committee of management, the contact. The instability that that would create in the lives of people who are already gravely disadvantaged could be profound and would be gravely worrying.

Ms ELLIS—Would it be fair to say that some of those more profoundly affected people with disabilities obviously illustrate the most vulnerable group, or one of the most vulnerable groups? I am thinking of an organisation here in the ACT, Sharing Places. The sorts of services that Sharing Places provides also creates relationships between clients and service providers, between the individual working for Sharing Places and the people with whom they have dealings in the production of the day-to-day care. That would be another example, would it not, where we are stepping out of accommodation and into the provision of day-to-day care and occupation for those people, where change would be detrimental?

Mr Woodford—Potentially.

Ms ELLIS—Yes, potentially, given the relationship and the knowledge that has built up about family relations and so on in relation to those people?

Mr Woodford—Yes, and particularly in my case. I do not want to sound as though I am really down on for-profit agencies. I am not, as such.

Ms ELLIS—No, that is not the point.

Mr Woodford—But if the auspice of an agency were to pass from a not-for-profit with strong links with the community, into a for-profit, which ultimately has a concern to return to the investors some sort of dividend, that would worry me—where you would be passing over that auspice, as it were, in midstream.

Ms ELLIS—Yes. I have one more very quick question in relation to large community services, like Woden Community Service or Tuggeranong Community Service in the ACT's example, where they have grown to such a point in their own evolution that they now provide a broad range of services to the community. You were mentioning a moment ago the cross-costing that it can create in some instances. In instances like those services, where they may be providing such a broad range of these 'cross' other things—corporate knowledge, community understanding and knowledge and so on—if, for instance, the government stepped in and said to one of those organisations, 'We now want

you to tender out that bit and that bit. We're not going to let you do that any more. We're going to open that bit and that bit up, and you may or may not retain it, so you then can excise out bits of community service,' I only view that in a very detrimental way. Would you agree with that as well? It is not just service provision. It is the entity of the organisation, and the collectiveness of the knowledge, and so on, of the understanding of the community. Would you agree with that?

Mr Woodford—I would agree. I can actually quote an example of the Koomarri Association which in the late 1980s was subjected to considerable pressure to divest itself of its accommodation services. It did so, and it led to some major problems for the clients of the service, who previously had a range of needs covered and who were now being supported by Koomarri, on the one hand, providing for their day service needs, and a different agency focus which was providing for their accommodation needs. The breakdown in administrative arrangements has definitely worked to the disadvantage of those clients, and continues to do so, eight to nine years on.

Ms ELLIS—Yes.

CHAIR—Thank you very much, Mr Woodford and Mrs Braithwaite, for your time. It has been very useful to have you come in and add some extra comments to your written submission.

[1.58 p.m.]

TREGEAGLE, Ms Susan, Director of Program Services, Barnardos Australia, 60 Bay Street, Ultimo, New South Wales 2007

CHAIR—Before I proceed, I need to point out that whilst this committee does not swear witnesses, the proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings in the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament.

Your submission from your organisation has been received and incorporated in the published volumes of all submissions already distributed as part of the inquiry. You need not speak in detail to all of your submission, but I would like to give you an opportunity to make an opening statement. You might want to add some information. We will then proceed to some questions from the committee.

Ms Tregeagle—Mr Morris has the *Sydney Morning Herald* there. I might just direct him to the front page, where I would like to start my submission. It is right down the bottom. The issue is related to residential care in New South Wales. Barnardos' primary concern about this submission relates to the need to have appropriate standards in place with any sort of tendering process, no matter what its form, particularly related to initially working out the terms of what a tender should be, so apples for apples are what is obtained when a tender is given out, but also our concern with what happens over the course of implementation of tenders, and the issue of creaming. I think the ACROD people got that out nicely in their discussion earlier—this business of services, because of cost pressures, actually shifting away from the most difficult clients in the community. That is the major point.

I thought it might be useful if I just went through Barnardos' most recent experience of tendering. I am hoping what that will do is bring out some issues that we might be able to pick up on. About three years ago we were involved in tendering services for state government. All of our services are in some ways tendered from government.

CHAIR—Historically, from day one? Your organisation has been around a long time. It would have been by grants initially, or has it always been a tendering process, or some sort of contract?

Ms Tregeagle—One hundred and forty years ago, when we first started, it was all voluntary. For the last 12 to 15 years that I have been with Barnardos, about 80 per cent of our funding is from government grants to various groups. There is in fact one program that we do not get any government grant for.

CHAIR—That is in your submission.

Ms Tregeagle—Yes, and that is a service which we would have a moral responsibility to provide to the child migrant who was brought out from the UK.

CHAIR—That is funded by the users, is it?

Ms Tregeagle—No, it is funded by cake stalls basically.

CHAIR—Fundraising?

Ms Tregeagle—Yes. We put in about \$2 million in fundraising and legacies each year to match government grants. So when we set off on the process of this most recent tender, we were obviously in a reasonably good position to be able to compete with anybody, because we are bringing in an enormous amount of external resources that are not otherwise available to the sector. In this particular case, we were very committed to the need to remove those services from government, and that relates to the article on the front page of the *Herald* this morning.

Mr ALLAN MORRIS—We have had similar stories in non-government agencies as well. That is the story about the paedophile question.

CHAIR—Let us not get distracted by that, please.

Ms Tregeagle—Right, but the issue that it related to was that there had been in fact a very long period of negotiation in New South Wales, and a long series of inquiries and reforms, about what should happen to those kinds of services.

CHAIR—You were going to give an example, I think, of your most recent tender.

Ms Tregeagle—Yes. Let us get back to our example of the service. The particular service related to looking after six very behaviourally disturbed young people coming out of state government institutions, and there had been a lot of negotiations through a reform process in New South Wales called the Usher report, which had got it to this point. This particular service was stage 1 of what was to be a very long process of tendering out services to the non-government sector.

The issues that we had to go through before deciding whether we would be involved in that related to the fact that there are in fact no government standards for services to this sort of kid in New South Wales. There used to be. However, government has systematically removed a lot of work that had been done in the non-government sector to develop an adequate set of standards by which we could judge programming. There is in fact not even any understanding in the New South Wales state level of how many children they need to provide service for. This is despite long periods of attempting to get data collection in place, which is the animal that has been tendered for and is very poorly understood in this particular case.

We had to go through a series of questions related to whether we thought we could take on that particular tender. It was to be set up as 100 per cent government funded, and our understanding over many years of tendering is that government 100 per cent funding never covers 100 per cent of cost. There are considerable costs involved and that extends to both federal and state programs. Our other major concern is that we were taking on

very long-term responsibility for extremely disturbed young people, the length of the tender was only going to be three years, the amount involved was something like \$400,000 and all of that had to be raised through public donations.

So it is with enormous concern that we take on a contract of that magnitude. In fact, what has happened is that we have now come to the end of the first three-year funding period and government had not quite realised that the money was about to run out. It has in fact run out and, even after the contract period was finished, there was still no attempt by government to develop the terms of another contract. We are now still in the process of trying to negotiate that contract, and last week, when we were still working on that, they were offering something like \$20,000 a year less for the provision of the service that we had contracted for three years ago, if you follow that.

CHAIR—Yes. That does not sound to me like a tender. That is just negotiating like a grant. That is not a tender. Was that how it originally started?

Ms Tregeagle—No, I should have gone into that in more detail. What actually happened was government said it wanted to tender out the services for that particular kid. There was a long period of negotiation through the Usher report to work out what sort of money would be appropriate for that. In fact, an enormous amount of money was spent on consultants. They were trying to work out formulas, but very few people have any experience of service provision in this area. We only took on contracts when we agreed to a particular level of funding.

CHAIR—No, that is not a tender. That is not in strict terms a tender. That is entering up a contract in an agreement sort of environment. A tender is, ‘Here’s the document. Here’s what we expect. Give us a price for it,’ and that is offered to several people. That is what a tender is.

Ms Tregeagle—I guess the sector came back and basically said it would not play ball, and this was our position. If government had said, ‘You can have these six children. We will give you \$100,000 a year,’ we would not have played ball. There was a period of negotiation because people do not actually understand the costs involved. Neither government nor a lot of the sector has really got a clear understanding of what it is going to take to get those services into place.

If you say that we should have come back with an amount that we said we would do it for, I think in a sense that is what the sector said—that it just would not consider doing it under a certain amount of money—and that is what government came to. I think this definitional issue in what tendering is—

Mr ALLAN MORRIS—It is contracting out.

CHAIR—It is contracting out. That is clear, but at the end of the day the choice is yours. You can say, ‘Well, we cannot do it for that.’ What would then happen? They would go and try and negotiate with another agency, I suppose.

Ms Tregeagle—I might say there were probably 20 agencies putting in bids for this money, of which I think about 10 received it.

CHAIR—So they were negotiating with a number.

Ms ELLIS—Competitive, in that sense, originally at the beginning of the three years?

Ms Tregeagle—Yes.

CHAIR—Tell us about the outcomes. You did take on the six children?

Ms Tregeagle—We did, as did 10 or so other agencies. In the midst of that process—if you remember, I said this was step 1 of what was to be quite a large tendering for the process—government then stopped that process. It is only speculation, of course, as to why government withdrew from the process, but there was a lot of bureaucratic opposition to what was happening, and perhaps that is about as far as I can go. There was some union disquiet on the matter as well, but I do not think—

CHAIR—What has been the outcome for the six children? They are the most important people here.

Ms Tregeagle—There has actually been an evaluation, which I could table if you are interested, by Deakin University on outcomes for the children who were contracted out, which shows very clearly that all of those children have had better life experiences.

CHAIR—That is a relief. We are disturbing your opening statement in a way. Are you happy to accept the questions?

Ms Tregeagle—Yes.

Ms ELLIS—There were 10 agencies altogether?

Ms Tregeagle—Yes.

Ms ELLIS—Did they choose six children?

Ms Tregeagle—Yes.

Ms ELLIS—So there were 60 children out?

Ms Tregeagle—Yes. I think, over the three years, 95.

Ms ELLIS—Roughly?

Ms Tregeagle—Yes.

Ms ELLIS—In Barnardos instance, did you find that you needed to supplement the money that you received from the government to provide the services for those six kids you had?

Ms Tregeagle—No, we did not.

Ms ELLIS—I was a bit confused because you mentioned that you needed to raise \$400,000.

Ms Tregeagle—To replace, it was \$400,000 for the children.

Ms ELLIS—It was government funds, was it? They 100 per cent funded the six children?

Ms Tregeagle—Yes.

Ms ELLIS—How long ago did the contract run out?

Ms Tregeagle—About two months ago.

Ms ELLIS—Where are the children at the moment? Are they still in your care?

Ms Tregeagle—Yes, and government has been, after an enormous fight and threats of—

Ms ELLIS—Are all of the agencies involved in the same position?

Ms Tregeagle—Yes.

Ms ELLIS—Are we looking at a retendering or are we looking at a renewing of—

Ms Tregeagle—We do not know what we are looking at.

Ms ELLIS—‘We don’t know what we’re looking at.’ That is the problem. The only reason I am asking this, Mr Chair, is because the end of this process ties in with questions I was asking—I think it of Veterans’ Affairs this morning; someone mentioned it—in terms of what happens at the end of a tender process. Do you see agencies go back to renewal on a check of the outcomes? Or do you see agencies open up the tender process again? This is where there is a bit of confusion in this particular instance, which is a good example of what can happen—or a bad example of what can happen—at the end of a tender process. Is that right?

Ms Tregeagle—You have got to remember we took kids on who were as young as 11 and 12, who had had multiple placements and were very disturbed.

Ms ELLIS—I was going to ask, in fact, what had been happening to these sorts of children prior to this particular perhaps pilot scheme?

Ms Tregeagle—Children of that age can have as many as 15 or 20 placements in a year.

Ms ELLIS—They were fostered?

Ms Tregeagle—Yes, fostered, or many of them came out of the big institutions, and were seen as unfosterable.

Ms ELLIS—But the interest of this committee is basically that you went through a tendering process. You and nine or 10 others were successful. You each undertook a three-year contract as a result of that tender process. Now we have a position where the continuation of the care of the children, or any contract, is now very questionable, because we do not know where the process is up to at the end of that period.

Ms Tregeagle—Like most agencies in our position, we have to act with good faith on the assumption that funding at some level will continue.

Ms ELLIS—Sure.

Ms Tregeagle—All I can say about it at that point is that the most recent offer government has made to us for the care of these children is considerably less than the amount of money than we had originally negotiated.

Ms ELLIS—Can I clarify this. Regardless of the amount of money, are we looking at a contract renewal, or are we looking at the government proposing a retendering process?

Ms Tregeagle—They have not told us yet. We cannot answer that.

Ms ELLIS—That is fine. That is your answer.

Ms Tregeagle—Yes. It was never indicated in the beginning that there would be another contract period, though this of course would be a reasonable assumption.

CHAIR—That seems to highlight a problem. When you enter into a lease for a dwelling or an office or something, you usually make sure there are options in there so you have got some certainty about the future, such as a five-by-five lease so that you have the first option on the next five years at the end of the first five-year period.

Ms Tregeagle—Yes.

CHAIR—That ought to be something that should be incorporated in documents. Very clearly we are hearing that certainty and continuity are very important issues to this particular sector. Do you think that is one way in which you could have avoided the current dilemma which you are in?

Ms Tregeagle—We were in no position to dictate the terms of the contract, I

would have thought.

CHAIR—Yes, in hindsight. But what the committee is concerned about is what we can do in the future, what we might be able to recommend to avoid this.

Ms Tregeagle—No, I am not saying that, but I am saying that this is the industry. I mean, we battle away in various areas to expand the terms of contracts from one year to three years. But the whole of our organisation is predicated on short-term very insecure contracts. We just have to continue. The only ability we have to cope with that is that we have a clearly worked out wind-down program, so that if grants are not to be given to us any longer in particular areas, we would wind down with a less intrusive program.

CHAIR—I am actually asking you to look forward. Right?

Ms Tregeagle—Yes.

CHAIR—Suppose you are queen for the day, you are this committee. What would you like to see recommended to avoid the current situation that you are in today?

Ms Tregeagle—This requires state or federal treasuries committing themselves to open-ended periods of time, which they will never do. We have negotiated for many years and attempted many times to get state governments to guarantee a particular viable length of contract, and some promise of continuity. The argument is, ‘Treasury works year by year. You can’t do it. Pie in the sky.’ Okay? We would all love to see that arrangement, but as a humble tenderer we are not really dictating the terms, and the state government departments will not go into bat on that.

Mr ALLAN MORRIS—But as I say, perhaps a two-year plus two-year option, subject to review, rather than necessarily effectively what you are suggesting, which is a kind of in-perpetuity arrangement—unless something goes wrong—may give you a chance of getting a more repetitive contract with a review process built into it.

Ms Tregeagle—When you are taking into consideration month-old children, whom we have to look after until they are 18, I suppose I would need 17 or 18 years.

Mr ALLAN MORRIS—Yes, but your organisation may go belly up in itself. Other things can happen as well. We have had problems with organisations as well with government departments. It would be unwise to say anybody should feel certain about the future of any institution, whether it be government or a non-government body.

Ms ELLIS—Mr Chair, if I could make a suggestion, I think what we are actually looking at here is a perfect example of a current inadequacy in any proposal to tender out, or contract out by tender, services in a welfare area where a certain degree of certainty is required from the client’s point of view. I agree with what Mr Morris just said. No-one should be assured, because they have once got it, that they will always get it. But by the same token if someone is going to contract something out, like the care of these particular children, there needs to be a mechanism in the process that allows the smooth transition

from one contract to the next.

It appears quite evident that there is no such mechanism in the contract arrangements for this instance, or for a lot of others we have heard about. It almost gets to the point where you would need to see something—at the point of the beginning of the third year of a three-year contract, a very efficient review process being immediately undertaken. So if there is then a problem, it can be discussed. A contract can be arranged if the service provider is failing. Or the transition to another three-year period could be organised as well. That then also flies in the face of some economists in the process who want to see, at the end of every three years, another competitive process. I think there has to be some sense talked about that.

Mr ALLAN MORRIS—Perhaps it is the Amanda principle, that they are scared of losing their jobs.

Ms ELLIS—I think I have made a relevant point there. That is, if you are going to tender stuff out in this area there has to be some opportunity for continuity, unless there is a very good reason not to, and not just to continue to re-enter a competitive process every three years, hoping the costs are less. I am being provocative when I say that, but I think it is a fair comment.

CHAIR—That is all right. Before we get off examples, that is a state government example. Do you have any examples that relate to Commonwealth contracts that should be addressed?

Ms Tregeagle—There are actually some other points I wanted to bring out on that one as well. Certainly we tender for SAAT services, but most services in our area come through state government, so in fact we are somewhat limited to a large extent in some things.

CHAIR—It is just that your submission did refer to Commonwealth programs. Are they more by grant than by tender?

Ms Tregeagle—Yes.

CHAIR—We should let you finish what you intended to do before we disturb you with questions, although we have gone over time.

Ms Tregeagle—I just wanted to make a really critical point which really relates to this ability of who can come along in three years time and assess what the outcomes are, because our experience is that bureaucracies are really very poorly equipped to do that. In this particular example, the actual development of the tender was particularly poor. It was not based on research, not based on any experience or practice models such as this. We were fairly appalled at what we were being asked to contract for. In the end we said we would not accept the terms of the contract, and changed the service model. We were in fact the only one of the organisations tendering who had had any experience in this extremely difficult group of children. There is documentation to that effect. I am not just

saying that. It is well documented.

CHAIR—Are you wishing to table that?

Ms Tregeagle—It might be a good idea.

CHAIR—We will have that incorporated after you have finished.

Ms Tregeagle—All right. As I said, there is little understanding of this sector by the bureaucracy. The bureaucracy cannot tell you how many children it is actually responsible for, and also has a very poor record in delivery of services to that sector.

Mr ALLAN MORRIS—Is it a question of monitoring the non-government agencies, or the setting of performance standards and so on? What you are saying is there is a serious deficiency in that area.

Ms Tregeagle—Yes, and Barnardos has been very concerned over a number of years to try and encourage government.

Mr ALLAN MORRIS—Yes, as have many others. Is that both at Commonwealth and state level? Some programs are jointly Commonwealth-state administered. With performance monitoring and so on, do you see a qualitative difference between Commonwealth and state programs?

Ms Tregeagle—It is marginally better in the supported accommodation assistance program. SAAP perhaps attempted to introduce standards. But there is no money or enormous effort that we see going into that area. There is a bit more data collection going on at the moment, but we think it is still pretty inadequate generally. Change in this area is very slow.

CHAIR—If there is any more information you would like to add, please do so.

Mr ALLAN MORRIS—In the second-last paragraph of your submission you say you believe that the government has an obligation to set the price of contracts rather than allowing the private sector to develop and make profit by reductions in care which can lead to public outcry. A part of this whole question is how you actually set the price vis-a-vis quality and outcomes and all the rest of that, in view of the fact that competitive tendering is helping governments to establish what the price should be? You are saying they should be set, and of course, as you heard the chairman say, they are set anyhow—or so I understood you to be saying—without that.

Ms Tregeagle—Yes.

Mr ALLAN MORRIS—How price setting was worked out would have to be a transparent process. If government were to set the price, it would probably set it at a savings price to get more bangs to the buck, so to speak.

Ms Tregeagle—That is the concern, and I suspect it is a large concern of the sector that it is perceived as part of an exercise which is all about reducing costs, with, somehow, an implication that money is being wasted in the sector—whereas I think the reality within the sector is that people are scraping together services in a most inadequate sort of way. Services are dramatically oversubscribed. Wage levels are depressingly low, and it is becoming very difficult to attract people to work in the area. That continual drive and preying on people's goodwill is part of the funding base of welfare in Australia. We do not see much scope for it getting much lower.

If government wanted to address these issues in a context quite separate from trying to save money, I think it would need a very well honed bureaucracy with a great deal of understanding, and a great commitment, to work hand in hand with the sector to develop services.

CHAIR—You obviously believe that the bureaucracy is not able to prepare adequate documentation to manage a proper tendering process. Is there some way in which that could be rectified with some sort of coordinated establishment of standards and proper documentation?

Ms Tregeagle—You would hope so. A lot of us have been working with enormous concern about the performance of welfare bureaucracies, and we have seen very little change over a number of years. If you look at issues like staff turnover in some of the state welfare departments, I think the average length of stay of a new worker is something like eight months. There is no real ability for bureaucracies to develop good expertise and an understanding of the sector. There are so many issues that would have to be addressed. We all have great hope that things will improve, but there is not a lot of evidence to suggest that they will.

With respect to basic case work by departments, I was looking at some figures the other day that showed that only two per cent of the case files of the department of community services were legible and adequate. The level of functioning that we are seeing is not encouraging. This includes the turnover of community program officers, who are meant to look over the tenders and make sure we are doing the right thing. That sort of thing just does not occur.

CHAIR—There is no monitoring of standards?

Ms Tregeagle—No.

CHAIR—Except at the end of the period, you have discovered.

Ms Tregeagle—What happened in New South Wales is that the non-government sector got together and developed a set of standards, with a small government grant through the Association of Child Welfare Agencies. We had a very good two-year process where accreditation was given and best practice was encouraged, and was happening. The department never subjected itself to the same set of standards. For various reasons the grant was withdrawn. I think it was part of this problem of freedom of expression of peak

bodies. The process was taken back into the bureaucracy and, as part of cost-cutting, was cut completely.

We are now, 12 years on, paying consultants a fairly vast amount of money to develop a set of standards. I believe in New South Wales that process is almost complete. There is still no promise from the government departments that they will comply with those. They are still just for the non-government sector.

CHAIR—I think we have other witnesses we need to speak with. But if you would like to offer that document, we will have that tabled.

Ms Tregeagle—Do you want me to just read it out?

CHAIR—Just read out the title, if you would.

Ms Tregeagle—It is called *A review of intensive out-of-home care support services* by Deakin Human Services Australia, which is Deakin University, dated 1997.

CHAIR—We may find that of some use as a reference point. Thank you very much, Mrs Tregeagle.

[2.30 p.m.]

RENTSCH, Mr Ian Edmund, Chief Executive Officer, Australian Association of Social Workers Ltd, PO Box 4956, Kingston, Australian Capital Territory 2604

CHAIR—Before we proceed, I wish to point out that while this committee does not swear witnesses the proceedings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament. A submission from your organisation has been incorporated in the published volumes. All submissions are already distributed as part of our inquiry, so that has already been taken into account by us. But I offer you an opportunity to make an opening statement before we proceed to some questioning about different aspects of your submission.

Mr Rentsch—Thank you. We appreciate the opportunity to appear before you today. I guess we are somewhat different, because the Australian Association of Social Workers is not a direct service provider. But of course we do have almost 5,000 members at the moment and many of those are working in non-government agencies, and in government agencies, across Australia, and they are actually involved on both sides of the fence. We have members involved in assisting with the contracting out of services, and of course they have also been at the forefront of providing and managing those services in non-government agencies across Australia.

Social workers, as a profession, abide by a very strong code of ethics. That really defines our relationship to our clients, or the services users or consumers, whatever term you wish to use, and certainly our relationship with the employing agencies. Part of our overarching concern with the whole process of contracting out is that in some respects our ethical standards could potentially be compromised under a very rigid contracting out of services, particularly with respect to aspects relating to clients' self-determination, which is one of our fundamental platforms in our code of ethics. Probably the other area that is somewhat at risk is the issue around confidentiality and confidential information.

I mentioned that we have got members perhaps on both sides of the fence—those that serve the purchaser or government agencies and those who are providers. The discussion that has occurred in our branches around this is that on both sides of the fence there is a great deal of turmoil around the whole issue of contracting out. I am particularly referring to the new branches.

CHAIR—Could I ask you to make a distinction between the concept of contracting out and competitive tendering, because the committee is aware that we have created some confusion in our terms of reference. Contracting out has been occurring for quite some time, for years. Competitive tendering is the new concern. Can you make that distinction when you are making your contribution?

Mr Rentsch—Yes, I appreciate that. We did make reference to that too in our submission—just the enormous confusion around all the language that is used here. That is part of the turmoil of course but, yes, I understand that. We are talking about the

competitive tendering here in particular. At present that is creating a great deal of turmoil. I have got an example, and I know one of the submissions from South Australia has spoken to that in a very personal way.

I was the director of that agency a number of years ago when we set up what we considered to be a very fine foster care program and, due to the new practices around competitive tendering, that agency has lost that program. It has caused considerable devastation to the director and everybody concerned, with the staff now having to be retrenched, and so on, not to mention the loss of trust that has occurred between the other agencies concerned. I have spent several hours on the phone with my successor—having to counsel her, effectively, because she was just really devastated. That is a personal thing, but it really does bring home the real conflicts around the dramatic changes of value that have taken place when competitive tendering has been introduced into the human service sector.

If you are looking at costs and benefits with respect to competitive tendering, we believe the costs of introducing competitive tendering certainly outweigh any benefits that there might be for this process. We have grave concerns about its introduction. I will just certainly mention one about the whole loss of collaboration between agencies. We think it has really cut to the heart of the values that the community service sector has operated on for many years. The close collaboration, the openness with which agencies have worked with each other, seems to have been very quickly eroded in the last couple of years because of the introduction of this process.

It is not just in the immediate term, but I think in the long term that that really is going to have some significant impact, because the agencies bring a really important balance in Australian society. They are really mediating agencies between individuals and the broader structures that we have in agencies and whatever else we have in society. If they are pressured and not able to work openly with each other, then we are really destroying a significant part of that whole value process.

The tightness of competitive tendering we believe can really lead to—and I guess this follows on from just what I have been saying—the loss of collaboration and cooperation not just between agencies, but between government and agencies, because of the purchaser-provider split that has really opened up. It means now that agencies are not able to cooperate to anything like the degree that they were a few years ago with respect to the development of programs, and even the development of measures and so on that might be used to evaluate those programs. That has been to some extent taken away from them as well, so they have really been disempowered through this process to a considerable extent. The ideology that surrounds market forces would suggest that there is a level playing field. That is no longer the case with non-government agencies. They are really now in a situation where they are very much having to simply accept the conditions that have been placed on them that tendering provides for them.

I think one of the other things that we as a profession are very concerned about too is that through this process, and given that the emphasis is probably on reducing cost to the Australian community, what we are going to have is a lowering in the quality of

services that are being provided, because there are very few means that agencies have at their disposal to be able to cut costs. Really what they have got relates to simply the lowering of wages and conditions, possibly making staff work harder than they already are. What that means inevitably is the employment of less qualified staff, and that has implications which I am sure have been pointed out to you already—the issues that come up in the Wood royal commission in New South Wales, when unqualified staff are employed in residential settings and what have you. We have, as a profession, grave concern with people who are unqualified, who do not have a code of ethics by which they work. Then you are creating situations where the potential for abuse and exploitation down the road is certainly considerably heightened.

CHAIR—That certainly is a very high risk area, isn't it, with foster care?

Mr Rentsch—Foster care, alternative care, residential care; that is certainly a very high risk area, more so than other areas. The area of residential centres for disabled people too is certainly one of great risk.

CHAIR—Obviously this is one where you would say, 'Look, this is just not suitable for any open tendering process. There has to be a very tight accreditation, tight sort of control.' Or is it completely taboo? This is one area you just do not allow any competition into at all? The previous witness has given us a good indication of how one organisation feels, but what do your members feel?

Mr Rentsch—I could not answer on behalf of members. We have certainly had no indication to say that there is one area that you cannot touch so far as competitive tendering is concerned. That has not been indicated to us. Certainly to me at this stage of the game I would need to undertake further study of that before we could come back. We just mentioned foster care. That certainly is one area that has caused particular concern in a couple of the states that I am particularly familiar with.

CHAIR—In the South Australian case when the tender was not renewed, was that resolved on purely price or were there other factors?

Mr Rentsch—I am not privy to all the information. You do have the submission there from South Australia.

CHAIR—Yes, we will be meeting them.

Mr Rentsch—I would hope that they would appear before you, that particular agency. So I really am not able to say exactly whether it is just price. However, I can say, because the information was provided to them—and this is one of the anomalous situations—that the minister actually had signed off on the tender. They had actually been given it. For some unknown reason the signature—they actually got the documents given to them—or the documents were changed so that the competitor actually got the tender several days later, which is a highly unusual situation to say the least.

CHAIR—Well, rather than hearsay we might just ask them directly when we meet

with them.

Mr Rentsch—I think that is something that is worth looking at. So that is the situation as it was described to me, and I understand that the documents were made publicly available, which is rather unusual too.

CHAIR—Are you nearly finished your opening statement?

Mr Rentsch—Yes. I am happy to leave it there.

Ms ELLIS—I have a question, just briefly, but I think you have already touched on it, Mr Rentsch, and that was in relation to the relationship between agencies prior to and post-competitive tendering. You have touched on it very briefly. Could you elaborate a little bit? We have had evidence in Melbourne where some people were giving us some examples of how the interrelationships of agencies occurred in the past and how they are then governed somewhat by competitiveness in the tendering field. Do you have anything further you want to add to that?

Mr Rentsch—I have got some personal experience going back to my days back in South Australia, where I guess one of the real joys of working in the position at that time was our ability to work closely with other agencies, where in fact we developed a couple of quite significant programs working in close collaboration with one another. The information that I now have is that it is extremely difficult for agencies to be able to do that. Firstly, if they do share too much information, they may be giving away information that will assist a potential competitor.

Ms ELLIS—It almost becomes commercial confidentiality, does it not?

Mr Rentsch—Absolutely, yes. In the case that I have just mentioned in South Australia, where I guess a number of agencies did get together to form different consortia to put in bids, what has happened now, because one consortia has got the tender and a couple of others have missed out, is that there is a real breakdown in trust between the various agencies, and I can only describe that as a tragedy. In this area where you really do need to work closely together, collaborate with one another, cooperate, sharing information so that you are providing the best service possible for your clients, we are really now almost precluded from doing that.

Mr ALLAN MORRIS—Mr Rentsch, I asked this question of earlier witnesses. In regards to working conditions of your members, it has been suggested a bit obliquely that there may be a move—and it may be more primarily with for-profit providers—to employ social workers on conditions which are not necessarily in keeping with the normal standards, such as overtime and other work conditions. Are you aware of that, or could you comment?

Mr Rentsch—I do not have any absolute direct knowledge of, I would have to say, for-profit providers working under those sort of conditions. I would have to say that given my previous experience in working in the non-government sector, you do not tend

to work—

Mr ALLAN MORRIS—Most social workers work more hours than they are paid for. I am mindful of that. I was not thinking of that.

Mr Rentsch—Yes.

Mr ALLAN MORRIS—But what was suggested concerned third-party tenderers who are subcontracting to a government, whereby the government tenders out a tender to the first one who in turn then subcontracts. The subcontractor is not required to necessarily conform to carriage and conditions of employment, and may well use a casual work force. It has also been put by other people that what is happening at the moment is an undermining of the profession as a career profession because of casualisation, and so that is discouraging other people, so that both the non-conformance with conditions and requirements of awards and normal employment behaviour, and, secondly, the diminution of career paths or career certainties, I suppose, occur.

Mr Rentsch—We have certainly experienced the erosion around certainty of career paths. The other area where we have really got some grave concerns is in relation to agencies which are currently negotiating contracts with individual social workers in private practice; there is very little understanding sometimes of what social work can provide. For instance, in the Department of Veterans' Affairs—and this is probably not a bad one because it relates to the Commonwealth departments—even though social workers provide an almost identical service to psychologists for particularly the Vietnam Veterans Counselling Service, the difference between the hourly rate that is agreed upon between the two professions is enormous.

Psychologists can attract something like—and I cannot remember just off the top of my head—\$70 an hour and upwards. For social workers for the initial visit, I think the agreed rate at the moment is \$32 an hour, and \$18 an hour for each visit thereafter. Who in the professions works for \$18 an hour? But that is what is demanded of social workers at this stage, even though they are a tertiary qualified, four-year degree for a bachelor of social work, and generally have to be experienced social workers to work in this sort of environment. There is just an enormous disparity between the hourly contract rates, compared to another profession like psychologists. So we are aware of the real pressures that are placed on people, and we are just starting out to really try and work that one through with, in this case, the interdepartmental committee on fees and allowances.

Mr ALLAN MORRIS—So therefore the services are provided by an agency, or even by a government, for a consumer if you like, where we may well get substitution because of charges that are involved. If that differentially is three times the differential, then we may end up with an inappropriate level of service involved.

Mr Rentsch—Yes. The problem we would see is that social workers are not prepared to work at such minimal levels, and either that goes then to psychologists at very high rates or unqualified people are going to walk into those positions. That is one area of counselling. We have just talked about some of the much more vulnerable areas in

residential care and alternative care and so on, where I think the problem is far worse.

Mr ALLAN MORRIS—If you have any more thoughts on that you might keep us in mind.

Mr Rentsch—Yes, certainly.

Mr ALLAN MORRIS—Going further into the professional problem, you have raised I think some very genuine concerns which come through via the submissions and other comments about the incentives not to exchange information.

Mr Rentsch—Yes.

Mr ALLAN MORRIS—A similar thing comes up, I suspect, with professional information recorded about one of your clients or a social worker type. Based on the High Court decision on doctors, it would seem that the information kept on file about someone who has been certified a social worker is their property, not the property of the person who pays. I suspect the same professional status would apply as it does to doctors.

Mr Rentsch—It is the property of the agency primarily in those cases, unless the social worker is in private practice.

Mr ALLAN MORRIS—Yes, that is right. So, therefore, if there was more than one agency involved in servicing a client, an individual, there can be a problem there about interchangeability or information transfer because of possible future competition.

Mr Rentsch—Yes.

Mr ALLAN MORRIS—The second part would be whether, during the possible shift of a contract from one agency to another, all the information went with that shift of contract. Can you make any observations on those two?

Mr Rentsch—I think you have highlighted certainly an area of potential confusion. I do not think we have dealt with that specifically in our submission.

Mr ALLAN MORRIS—Quite, yes.

Mr Rentsch—It has not been indicated to me as a specific issue at this stage, so I would want to be cautious about anything that I could say.

Mr ALLAN MORRIS—In relation to your submission in terms of barriers in competition and so on.

Mr Rentsch—Yes.

Mr ALLAN MORRIS—Transfer of information has not come up much because people have in the past assumed it was transferable. But given the High Court case with

the doctors, one would suspect, if it has a competitive advantage in the future, it may well be used as a competitive advantage.

Mr Rentsch—Yes, indeed. Certainly we will take that one up too.

CHAIR—Just briefly, you have been fairly strong in page 5 of your submission on the government departments' capacity to deliver a properly functioning competitive tendering environment, and their capacity to get a document in the first place, because they are so remote from the coalface where your people have to operate. Is there any way in which that could be enhanced?

Mr Rentsch—This particular example came from Western Australia, but the problem is by no means isolated. The problem for the government agency or the purchaser, particularly with respect to, again, foster care and alternative care, is that the people—

CHAIR—Are we talking about state?

Mr Rentsch—Yes, we are talking about state here, essentially, rather than Commonwealth. I have to be clear about that. But the people who were involved in the state government agency providing those services of course have left because the actual service has been contracted out. So there are not people in the government agency now who have the understanding of the nature and complexity of the service that is being provided.

It has been put to me that there is relatively little understanding sometimes on the part of the service providers, when they write the tender documents and set the indicators and so on, because you have people in the purchasing department who do not understand the service, writing in such a way that it is relatively meaningless for the actual service providers. So you get a great deal of confusion between the service providers, because they have not been involved at all in writing the contracts—whereas previously, because of the collaboration that went on between service provider and government agency, there would have been a great deal of work done to come to an agreed set of expectations by the funding provider. That is no longer there, so you get a good deal of confusion, with the people in the purchasing department not understanding the nature of the service that is being provided.

CHAIR—Does the strength of your criticism in your submission apply to Commonwealth? It is more state related, isn't it?

Mr Rentsch—It is more state related.

CHAIR—Is it also an ingredient in the Commonwealth situation?

Mr Rentsch—I would have to be honest and say that our information has primarily come from the states at this stage of the game.

CHAIR—But it is possible.

Mr Rentsch—Potentially it would exist there.

Ms ELLIS—Yes, where a government makes a decision the department will be policy driven and not service provider driven, which has now happened in some Commonwealth areas, and then you have a distance between policy and service delivery. That is basically what you are talking about.

Mr Rentsch—That is exactly right. Of course it has just happened now with the Department of Social Security.

Ms ELLIS—Exactly.

Mr Rentsch—But it has only just happened in recent months, so it is too early yet to know what is going to be occurring in that sort of situation.

CHAIR—We will have to have them back after there has been a bit more review and evaluation.

Mr Rentsch—Yes.

CHAIR—Mr Rentsch, we want to thank you for your time.

[3.16 p.m.]

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KIRKEGARD, Ms Sue, Executive Officer, Anglicare Australia

CHAIR—Before we proceed, I need to point out that while this committee does not swear its witnesses, proceedings today are legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament. The submissions have been incorporated in the published volumes of all submissions already distributed as part of the inquiry. I will give the opportunity to our representatives here today, in whatever order they decide, to make an opening statement, before we proceed to some questions from committee members. Please do not feel an obligation to read the whole of your submission; it is already submitted and read. I would invite you make any additional comments that you feel you need to make, in the order you decide.

Mr O'Connor—Thank you, Mr Chairman. I have a short statement to read.

The Australian Catholic Social Welfare Commission is an organ of the Catholic bishops of Australia, and has a mandate for the coordination, support, research, and advice in the field of social welfare. As part of this mandate, the commission makes public statements and promotes public discussion, on the understanding that the statements are its own. The commission believes that competitive tendering and welfare service delivery by government in Australia, whether at the Commonwealth, state and territorial, or local level, does have the potential to improve transparency and economic efficiency. But any potential gains must be weighed against the disadvantages that result from the inappropriate application of the competitive tendering process.

If governments are going to continue to use this mechanism for making decisions about funding, there needs to be a thorough re-evaluation of the rationale and processes involved. The social costs of competitive tendering and the contracting of welfare service delivery include reduced quality of service, reduced cooperation between agencies, loss of diversity in the range of services and providers available to service users, a reduction in the number of dissenting voices in the public debate, the undermining of independence of non-government organisations, a breakdown in the trusting relationship between the government and non-government sector, a reduction in the concept of citizen to that of a consumer, and the overcommercialisation of care, resulting in a two-tiered service system and social division.

In particular, the commission is most concerned about governments using competitive tendering and contracting for those purposes which are inconsistent with the enhancement of our democratic way of life, or with the improvement of the situation of

our most disadvantaged citizens. For example, governments can and do use contracting out as a method of extending their level of control over the non-government sector, and stifling dissenting voices in policy debates and public forums. If contracting out means the information that was once available to the general public now becomes commercially confidential, then it undermines the ability of citizens to participate on an informed basis in policy debates. This is always a threat to our democratic process and competitive tendering can thus be contrary to the public interest.

Alternatively, contracting out can be used as a means of minimising the cost of service delivery and transferring the risk of service failure from government to non-government sectors, thus reducing the accountability of government for ensuring quality services are provided to those in need. A major negative consequence of contracting out, which essentially seeks to establish free markets in service provision, is that it encourages citizens to see their citizenship as consisting primarily of being consumers of publicly funded services, rather than as contributors to the common good, and agents of their own wellbeing.

The Catholic Social Welfare Commission holds that the purpose of government is to be more than simply prudent financial managers or providers of cost-effective services. Governments must empower and encourage citizens to participate in and contribute to civil society. Hence competitive tendering and contracting out of government functions, including welfare services, serve the common good only when they are utilised primarily as a means of empowering citizens to participate more fully in the economic and political life of the community—that is, when the end result of this purchasing mechanism seeks to redistribute power to the bottom of society from the top, in government or business.

This demands that the central role of non-government, non-profit social welfare agencies be recognised, valued, and protected in the competitive tendering and contracting process. These agencies should not continue to be regarded as extensions of the apparatus of the state, or as de facto private for-profit companies in the marketplace. They play an important role in society in providing a space, which is not dominated by the power of the state or the forces of the market, for individuals and groups to help one another.

In many instances, the churches have played an important historical role in being the first providers of many social welfare services in this country. Assistance from government resulted when the state recognised its own responsibilities towards citizens were already being met in many cases by such non-government agencies. Therefore our relationship with government should be seen as a partnership of equals. At the same time, it must be recognised that the experience and expertise that it has built up in these organisations has contributed to the formation and implementation of good social policy by government.

But partnerships, if they are to be genuine, will mean listening carefully to the voice of that experience. Furthermore, that experience and professional expertise resides in the sector as a whole, so undermining the ethos of cooperation and information sharing through excessive competition will damage the ability of the sector to deliver quality outcomes. One of the aspects of competitive tendering and contracting out that mediates

against the voice of experience is the bias towards quantifiable outputs as the basis of funding. Criteria of performance are set predominantly in calculable rather than evaluative terms, so that professional judgment is displaced by a numerative assessment.

Order, rather than professional judgment honed by experience, becomes the new arbiter of competing policy or financial claims, and so social welfare activities must be reconceptualised so as to be capable of order. In times of fiscal restraint it is expenditure reduction which can most easily be subjected to measurement, and so becomes the most attractive method of assessing performance. Claims from professionalism, social science values, or plain human judgment or commonsense are rendered less pervasive.

Therefore the commission urges the standing committee to turn a critical eye to the way performance is measured in many social welfare contracts with the non-government sector and, further, to ensure that the basis for further tendering out of welfare service delivery is for the enhancement of citizenship, not simply cost reduction, and does not result in the reconceptualisation of citizen as consumer, and social welfare agencies as little fingers of the state or de facto private businesses.

Finally, and in conclusion, the commission urges the standing committee to consider the big picture. The relentless closing down of the state's role in a myriad of social sectors is rapidly increasing the social burdens on both the market and the non-profit sector beyond their capacity to meet them. The question that must be asked is whether this drive to smaller government is a self-denying ordinance, or a self-fulfilling prophecy actually entrenching citizens' disenchantment about the ability of government to address new social problems. Thank you, Mr Chairman.

CHAIR—Thank you. Ms Kirkegard, would you like to make a statement?

Ms Kirkegard—Thank you, Chairman. Anglicare Australia represents over 72 services run by the Anglican Church in various shapes and forms. We have joined with the Catholic Social Welfare Commission on this because we found we had similar concerns about the implementation of tendering in a competitive nature in Australia. I apologise for the absence today of Bishop Andrew Curnow, who is our chairman. He is the regional bishop for the northern suburbs of Melbourne, so he is well in touch with some of the problems that happen in the lower-income areas.

We understand the trends which have produced the move towards competitive tendering. There is a vast increase in the pressures on business to do things faster, and trimmer, and more terrific, and to cut down costs and take the least cost alternative. We understand that that has also spread into government. But we will say that that is not the only thing which has influenced it. There has been a growing inequality, as some people have come into work which is more fulfilling and needs more skill and there are others who have less work and fewer skills, and there is a great inequality in society. There is less need for government to run macro projects than there was many decades ago. It is possible to mount consortiums for major projects outside of government dollars, so we understand that, in some respects, there is less need for government now to run businesses.

But we would raise concerns about the growing inequality and the way in which those who are advantaged in our society, and those who do have the skills to work in a global marketplace, are becoming self-sufficient, and losing the awareness that there used to be nationally for a safety net, and that in our community there is a need for a range of services which government can provide. Those who are working towards international occupations do not have that awareness. Yet those who are in part-time or casual work—and the evidence is that there is an increasing discrepancy in our society—are increasingly dependent on having a safety net.

We would voice concern that, in fact, rather than there being a small role for government, there actually should be a strengthening role for government, and that competitive tendering should not be seen as the government reducing its role so that it is merely an efficient auditor. We believe there is a strong role for government in building a cohesive society, where many cultures are blended together, and much information coming from many different parts of the world is blended into one society. We would believe there is a very strong need for the government to take on, if not direct running of services, certainly a very active involvement in the types of services that are provided in society. That is a much more active role than the steering role that Heather and David talked about.

We would raise concerns about the process to date. In fact, I would debate that really there should be a hold on the kind of tendering the government is doing until some of the problems can be sorted out. In the discussions amongst the senior members of our executive, we have found instances where tenders have been let and then the prices change. We have found instances where more money has been offered after the tender has been let. We have found instances where less money has been given than the tender said. We have found instances where they advertise that the whole tender process would be undertaken, and then some months later abandon the tender process, and when they are renegotiating tenders, demand outputs be increased. This is a matter for discussion. We do not believe it is appropriate to come to the table and say, 'This is it. Goodbye.' when you are dealing with human services organisations. You are in partnership.

We are concerned because all the costs of this process that I am talking about, where tenders are not being run properly, are taken out of direct services. There are agencies who are putting in tender after tender in order for one of them to become successful. If the government wants to go down the government tendering road, there is a strong role for government in being involved in the types of services which it is running. But first it must iron out some of the problems. It should not expand tendering until some of these problems we have identified in the tender process in the human service area are ironed out.

CHAIR—Just in response to that, I ask you, when you get a copy of the *Hansard*, to read my opening statements to both the inquiry held in Melbourne and here again today. I am trying to make it clear the government is not about abdicating its responsibilities, but about finding maybe a different way of delivery. But the responsibility very much rests with the government.

I would like to congratulate both your organisations. Your recommendations and your submission are very strong and backed up. I am very impressed with the preparation you have put into your submission to us. I do need to clarify a point from the start, and it is something that the committee is obviously aware of now. There was some confusion about the issues that relate specifically to contracting out, which is something that has been happening for decades, as against competitive tendering. I need you to make it clear about which of those two you are concerned about. Is it the concept of contracting out per se, or is it just the competitive tendering as a new process that precedes the contract at the end of it? Which of the two are you most concerned about? Can you make that distinction, if there is one?

Mr De Carvalho—I think there is probably concern about both under different headings, but I would say it is the competitive tendering that is more a problem with contracting out, or the outsourcing. But there are also problems about contracting out, regardless of whether it is done competitively or not.

CHAIR—We might work our way through those. Ms Kirkegard, you made reference to some specific cases. I would like you to elaborate on those, because it is one thing to be concerned about something that might happen, but we are interested in realities, where it went wrong. Are you able to elaborate more specifically on those examples?

Ms Kirkegard—I am not able to, with truth, identify each one exactly now, but I do know that there was a tender process for residential care—I believe it was for residential care services in New South Wales—that went on for quite some time, a matter of months, and agencies prepared extensive documentation, which would have cost each agency in the tens of thousands to prepare, and then the government decided after many months that it was not going to tender out in this area, it was going to continue to do it itself.

CHAIR—I wonder, rather than rely on hearsay, if you could document specific cases. That is something we are interested in examining, and then maybe finding a way to avoid that problem. Could you take that on notice?

Ms Kirkegard—Yes.

Mr De Carvalho—One of the concerns that we mentioned in our opening statement, and which comes up in our submission, is the concern which has not been widely discussed today—as you know, I have been here all day—about one of the potential misuses of the contractual arrangement between government and non-government organisations, in so far as sometimes those contracts can be used to constrain the voice of non-governments organisations and their role in society.

A very concrete example, since you are asking for concrete examples of this, has been in Victoria, where they really are, I suppose, setting the pace in terms of contracting out. There has been a lot of controversy over a certain clause, which is discussed in our submission—the so-called confidentiality clause—which was seen as a tool basically for

ensuring that non-government agencies were not allowed to refer to their experience of service provision under contracts to actually criticise government policy.

There have been a number of public examples in Victoria in the recent past where contracted agencies have been threatened with defunding for criticising public policy, on the grounds that it was not in their contract to do that—in particular, gambling services, where the contracted gambling counselling service had made a public statement about whether the government should be publicly backing the gambling industry in Victoria. They received a letter from the minister, or a communication of some kind, suggesting that this ought not be their role, since they are not funded to do that kind of thing.

This is one of the main concerns that we have—that in contracting out, governments can actually say, ‘We’ll do the steering; you do the rowing.’ It relegates that role of providing policy advice to government. It marginalises community sector organisations from that role. We have said one of our major concerns is in the future trying to incorporate the experience and the expertise of the community sector, not just into service delivery, but actually into the policy setting—determining price, determining outcomes, and even the monitoring. If that experience can be brought in, it is likely that the whole process can be improved. I think that is the key. You do not have to have this strict separation of policy and delivery in the competitive tendering and contracting model. You do not have to have it. It comes with the ideology but it is not necessary.

Ms ELLIS—Mr De Carvalho, one of your recommendations talks about the need for adequate funding to the contractor to cover a range of things, including the cost of insurance premiums and other service provisions. We had evidence in Melbourne, when we were down there for a day, from some service providers who said they are yet to experience a contract that they have successfully tendered for where in fact adequate cost is included. Can you give some examples of what you are talking about there? I know what you are getting at, but for the sake of the record I would love you to elaborate on your recommendation 5.

Mr De Carvalho—It comes back to many of the questions you were asking this morning, Ms Ellis, regarding accountability, where governments contract other organisations to carry them out, and the comments of the Commonwealth Ombudsman on this issue. It is sometimes ambiguous as to who carries the risk when the service fails for one reason or another. So it would seem prudent on behalf of agencies, if they are unclear about that or if they are not necessarily confident that the government will in the end take full accountability for service failure as a result of policy failure, as opposed to operational failure, to be able to cover yourself for that kind of risk. That is just one issue, one cost, say insurance, but there are others where agencies do subsidise the cost of service by taking losses, by relying on worked overtime in particular.

Ms ELLIS—Administration costs?

Mr De Carvalho—I dare say. I have not got examples, but I know, because I used to work in a welfare agency where there was a lot of unpaid overtime done.

Ms Kirkegard—It was even one of the examples that I was talking about where they let a tender to do this, and this agency ran the tender for a year. The account that was given to me was that when it came to renegotiate the tender, the government walked into the room, put the facts on the table and said, ‘You will do X more for this.’ There was no consideration about costs. The entire mentality was, ‘We will get more out of you for the same amount of money.’

CHAIR—But again the agency involved had a choice to say, ‘Well, we can’t do it.’

Mr ALLAN MORRIS—They would close down.

Ms Kirkegard—I was answering Ms Ellis’s point about costs, and whether costs administration—

Ms ELLIS—Yes, can I just also pick it up, Mr Chair, because this gets back to something we were talking about earlier, and that is in the whole subject of competitive tendering and contracting out in the welfare service area. One of the areas I have been trying to highlight today is what happens at the end of contracts, and how the process develops so there is not a cliff falling off experience at the end for the deliverer and the receiver of the service. If government sets up competitive tendering and a contract is let, is it going to be hell-bent on an attempt to save money, retendering at the end of every contract period, or are there other motives behind it, or are there other ways that we should have—in consideration of the continuance of the service. I am really concerned about this side of the argument, in that it is all very well—even though I do not like the idea necessarily—of contracting out welfare services by competitive tendering. But at the end of the contract period what do we do? How do we then make it a viable system, should that be adopted, for the service provider and the client?

Ms Kirkegard—Could I take it up and answer Mr Forrest’s point as well. Toby and David have been very clear about a partnership, and a partnership does not come in, lay down and demand. A partnership does not abruptly end when that is not the need of the client. Perhaps what they would like a bit of more is what is the consciousness that we are partners in this? Even if you may want to call for tenders in different places there is a way of doing it that emphasises that both of you are in partnership.

Mr De Carvalho—I would go further and say that if you have gone through a tender process and have awarded a contract to someone and the end of the contract is coming up, you need to ask, ‘Why tender again?’ and there would only be certain circumstances, I would imagine, where retendering would be necessary. The first and most obvious would be: has the agency that is delivering the service visibly and obviously failed to deliver on the contract? If they have not, it would seem that there is no need to retender.

Ms ELLIS—That is my point.

Ms Kirkegard—I think there is also an element that when you are dealing in

human services you do not set short-term tenders for the kinds of services we are dealing in. You are talking about a change in a person's life. It is glaringly obvious in aged care or in disability, but it is also obvious in child care that you do not set short-term tenders.

CHAIR—Do your concerns relate more specifically to state—Mr De Carvalho has mentioned the state—or is it across-the-board, Commonwealth and state services? Is it both or is one more a problem than the other?

Mr De Carvalho—I think, because the states, particularly Victoria, seem to be leading the way, a lot of the negative experiences emanate from there. But the Commonwealth has been involved in competitive tendering and contracting, and certainly will be in a big way shortly with the employment services contract and the tendering process there. So it is very important that the lessons learnt from the past there be incorporated in that process. One of the roles that non-government organisations reluctantly took on in the previous round of contracting out of employment services under Working Nation was a role that they probably did not really foresee themselves as fulfilling, and that is, if you like, policing the unemployed person in so far as their fulfilment of return to work agreements is concerned.

Non-government agencies have traditionally seen themselves as supporters and advocates of unemployed people, and so that outsourcing of employment services can involve taking on a role which perhaps they felt uncomfortable with. It was something they rather would not have done, but because they felt they could offer a quality service in case management to the unemployed person, and they would hope in most cases they would not have to exercise that role, they took it on. But again it was a case of, 'This is what is called for, and this is what shall be delivered.'

Mr O'Connor—That is the direct outcome of contracting out, not competitive tendering.

Mr De Carvalho—Yes.

Mr O'Connor—You made the distinction earlier—it is not possible to make that distinction. Another case in point is the work for the dole scheme, where there was a requirement that it be compulsory. A number of agencies in the Catholic Church were quite happy to provide a work for the dole scheme to people in need, provided it was not on a compulsory basis. Hence, out of the 178 projects that got funded only four came from the Catholic Church, because they did not want to go down the path of being put in a position to basically do something that the state or the Commonwealth should be doing. Of the four projects that got up, one renegotiated with the Commonwealth in terms that they would only take voluntary service. I think while that was a competitive tendering process, if you like, the concept behind the contracting out had some negative aspects to it that obviously were not going to be taken on board by the Commonwealth.

Ms Kirkegard—One thing that would concern us about the Commonwealth in tendering out is that aspect I mentioned initially, that the Treasury would see it as a way of distancing any concern by government for such a provision and for the quality of

community life in the community of Australia. I believe there is a very strong role for the government in the areas where it might contract out services to remain involved.

Mr O'Connor—There is another matter in terms of contracting out that seems to arise with the employment projects that are currently being assessed on a competitive basis, and that is that it is quite clear that the Commonwealth, in moving to a contracting out basis, is shifting the risk to the agencies who are going to be running the program. In other words, if there is no payment made until an outcome is achieved, which might take up to six months, the Commonwealth took absolutely no risk. It has no risk there. It has shifted the risk from the government to deliver an outcome to a service agency. One of the benefits to government is that if those agencies do not perform, they do not get paid, nor is the service delivered, and at the end of the day it is not the government's fault, it is the subcontractor's fault. So it is a way of shifting responsibility away from the government back to the sector, which I think is unfair.

CHAIR—You do not have to tender for it.

Mr O'Connor—Many competitive for-profit organisations have chosen not to because they do not think it is going to be viable. For the non-government sector, who already have a massive involvement in providing skills training in the past which has now been cut, they do not really have too many options left to them if they want to continue to provide services to unemployed people, which is what their mandate and their mission is.

Ms ELLIS—Here we are talking about the harder to place client in the employment. I tried to talk to Centrelink people about this this morning, but it seems to me that even though we are talking about welfare services here, the very welfare of the people who are harder to place in employment terms is of huge concern in the contracting out of their employment advocacy. I have a huge concern about that myself, and I think we are basically saying the same thing.

CHAIR—That is a good example of a distinction, because one is contracting out. The rate is set. The competitive tendering process is in essence really what the committee is investigating. I would like to go back to that, to ask you to explain about this competitive tendering process. One of the things we are discovering is that in essence it really is not a competitive tender in the normal commercial terms: 'Here is a program for \$100,000; give us some rates to achieve certain individual outcomes within it.' Is that your experience? Or you may be asked to submit a genuine tender for a price with an open-ended—

Mr O'Connor—Under the present employment services that will be up, it is very commercial. It is a proper tender. There are other parts of the Commonwealth service delivery commitments—in, say, Attorney-General's for marriage counselling services, which is an area which has historically evolved almost in isolation from other developments in other fields, like disability, which moved reasonably early into some sort of notion of a formula, with X number of dollars equalling X number of clients needing a service, and unfortunately now X number of outcomes. So it would vary across the portfolios in terms of how much money goes for X number of outcomes. Quite clearly and

legitimately we are now moving towards the purchaser, the Commonwealth, making some arbitrary or some informed decisions about the sorts of number of outcomes that they want per dollar.

Ms Kirkegard—The difficulty, as I am sure you have heard earlier, is defining outcomes in human service areas. I am not withdrawing from that, because they are pursuing identifying them in disability areas and aged care, but with unemployed people it is not just a matter of the skills to get a job at a particular computer terminal; it is the skills to feel confident about work, to resolve some issues about becoming independent. So there are those kind of definitions of output. That is where the government under the competitive tendering and contracting out services can say it can be done out there, but then it has got to monitor how it is being done, and the identification of the right kinds of issues to monitor. That is not easy to incorporate in the competitive tender process, because it is easier to measure between competing tenders when it is numbers. How easy is it to measure whether you reconcile someone with a family?

Ms ELLIS—If you do not mind, can I just explore the unemployment area first for a minute. I was trying to clarify this this morning. It depends on your category. They categorise you, I think, do they not? They are easier to place quick job-ready people, and there are people with maybe mild disability or other long-term unemployed who will need different services for employment placement because of their history. Is that right?

Mr O'Connor—DEETYA is currently developing what is known as the job seeker classification instrument, JSI, and it is that instrument that will be used to assess where people fall in a specific category of assistance.

Ms ELLIS—That is what I am talking about.

Mr O'Connor—Where they fall in that category of assistance determines how many dollars get attached to their placement.

Ms ELLIS—That is right.

Mr O'Connor—Those that are off the scale, if you like, or those that are determined through the instrument as being not ready at this stage to move into those go into what is now known as the community support program. Of course we will see, as the instrument is verified and then put into practice, whether that initial pool—I think the Commonwealth indicated they would reserve 1,000 places—is going to be sufficient to meet that number of people. Obviously if clients are assessed to be at that level, more so than the arbitrary decision of the Commonwealth was about, it has to only be 1,000 people. Those numbers could go up. One assumes that they will go up quite dramatically.

Ms ELLIS—One thousand people meaning the ones with the—

Mr O'Connor—Who will be part of the community support program. Of course it is in the interests of the non-government and the for-profit sector to ensure that the people that they are getting as a result of the assessment are in fact in line with the sorts of skills

levels that they are expecting upon entry in terms of matching the dollars for the outcomes. If they do not, then I think there will be a major problem across the industry.

CHAIR—It is not unreasonable though for the government to have an expectation of an outcome?

Ms Kirkegard—Not at all.

CHAIR—It is not unreasonable.

Ms Kirkegard—No, it is not a problem.

Mr O'Connor—No, I do not think I would say that.

CHAIR—Structuring the funding arrangements is carrots to achieve that. That is not unreasonable surely?

Ms Kirkegard—No, it is whether you have defined the right outcome.

CHAIRMAN—Yes, I agree with that. It is clear—

Ms ELLIS—In the contracting out of welfare services, we are talking about the same thing.

Ms Kirkegard—The only thing that will make it very difficult for governments is that they are also trying to do the most they can with the least money. The risk is that you do not do the things that really need to be done.

Mr O'Connor—There is also another issue as to whether, in formulating some type of formula to get the outcomes, that is in fact sufficient to act as a carrot, or whether, in fact, in formulating the formula, you are simply saying, 'I only have X number of dollars. This is the best I can do,' so in fact it only becomes half a carrot. That is when people begin to weigh up whether it is worth while. Obviously in the employment area most of the for-profit companies have indicated that they do not think that the half carrot is going to be enough for them to make it viable.

Mr ALLAN MORRIS—Can I join with the chairman in congratulating you on your submission—but, perhaps more importantly, congratulate you on the fact you are actually here together. By joining up, you are making perhaps a more visible point. Can I just canvass with you this question. The argument about competitive tendering to try and get prices down is obviously part of what is driving it, through allocation of resources and efficiencies and all that kind of stuff. Any argument against that, particularly from organisations like yours, tends to be seen as mini-bureaucracies and institutions who are self-serving. In a way the easy answer to you is that, after all, each of you has a fairly large empire which is largely involved in administering services, and therefore why wouldn't you argue the way you are arguing? What is the response to that?

Mr De Carvalho—The answer to that is that this is the public choice argument, and who is capturing who? The argument then goes, ‘Just because the providers are cut out of the loop, it does not mean bureaucracy is still not being captured by someone.’ If you took it on face value, where you have a government department involved in service delivery which has now suddenly taken on the ideology that you must separate the provider from the purchaser, and you have got to go for output based funding and performance based funding, and you asked, ‘What’s happening here? Where did that come from?’ that just has not come out of the air, Senator.

That particular frame of reference, if you like, or that particular set of ideas itself could be seen as an agenda that has been imposed. Or someone has captured the service delivery bureaucracy and imposed their agenda on it. Simply because the providers are cut out of the loop does not necessarily put an end to the problem of capture. We are arguing that in many respects you could say that the service delivery departments, the line departments, have not just been captured; they have been lassoed, tied down, and had stuck on top of them essential agency cost reduction ideology.

Mr ALLAN MORRIS—It does not necessarily end the argument, does it?

Mr De Carvalho—No. I think essentially there is no such thing as a pure process.

Mr ALLAN MORRIS—Let me come from a different angle there. It is raised partly in the submission in which you talk about best practice. How many of your organisations in fact have quality systems installed? The answer we had some years ago was ‘We, as a community, across a range of industry or whatever, have picked up the concepts of quality.’

Ms Kirkegard—Most of our services would be fairly responsive to their consumers. That is not the same quality but—

Mr ALLAN MORRIS—No, that is often a waste of resources, or it can be, because some consumers will keep on consuming and consuming, and some other consumers miss out altogether. So it is not necessarily quality at all, because quality is actually about the organisation in a totality, not simply about some of its outputs. You mentioned in your submission about best practice and quality, and I was trying to establish if either of you have quality assurance programs such as ISO9000 or things of that nature in place in your organisations? What is the appropriate one?

Ms Kirkegard—Some of them have been looking at quality issues. I was not aware that ISO9000 was still in practice.

Mr ALLAN MORRIS—I am sorry, I am not sure which one it is.

Ms Kirkegard—No. I certainly think there is a concern about quality from our managers, certainly in aged care. There is a big push towards quality, both in the way you manage your services and in what is actually delivered. In the employment areas, I think they are still setting up their whole labour market systems for that area. For family service

areas it is accountability rather than quality systems management. So it is coming in. I am resistant to saying we are going in that direction, because the word I have had about some of the quality systems that are around is that they take up a lot of time and they are not sure in the end what they will get from them.

Mr ALLAN MORRIS—I guess the point I am trying to make is that in theory a good quality system delivers resources equitably, because it is actually measuring management and outcomes, costs and wastage, and training, and recording of data, and all those other things that are built into it. Therefore, in theory, two systems or two providers with equivalent quality services are going to actually cost the same because there is no money to be saved because a good quality system is the most efficient and the most effective notionally. That is the concept, which is accounting for most of the competitive tendering models.

Ms Kirkegard—We have probably only substantially gone to the level of actually measuring output, because in our field to actually measure the output was a significant step in itself over the last decade. We would only have fractionally gone any further than that. Even the inputs are not easy to measure.

Mr ALLAN MORRIS—I did not say it was easy. Can I go slightly further then. One of the problems that I see in the field, and I think you have touched on it obliquely, was the competition within the organisations for different services. For example, your organisations may be providing a foster service, you may be providing an employment service, or you may be providing an aged service, or a HACC service, or whatever. It seems to me what is happening within the agencies is that each person you are bidding to or getting a contract from is trying to do better with you than their competitor for your services. In other words, the aged service sector will say, 'Look, you can do this, so we want you to cut costs to us,' even if it means that the employment sector misses out. Or does it?

Ms Kirkegard—That does not tend to happen in our services.

Mr ALLAN MORRIS—You are not cross-funding? You are not cross-fertilising?

Ms Kirkegard—No.

Mr O'Connor—Only in those circumstances where the money does not belong to government. You would expect the church to make a contribution.

Mr ALLAN MORRIS—How would you know? If you do not have a full quality system in place, how would you know?

Mr O'Connor—I believe the quality accounting systems are in place that quite clearly track the Commonwealth money, and are audited satisfactorily by the department.

CHAIR—There would be a requirement for auditing.

Ms Kirkegard—Yes.

Mr O'Connor—I do not think there is any double-dipping or mixing.

Mr ALLAN MORRIS—No, I was not meaning double-dipping.

Ms Kirkegard—No, you are weighing up the services. But I would like to get back to what we mentioned in our submission about what is happening in the western suburbs of Melbourne. Quite independently we had provided comments from Catholic and Anglican agencies, which I think we documented, which both said, 'In this sector cooperation has disappeared. We feel as if we're isolated; we're out on our own. They're enemies and they used to be friends.' If you talk about quality, and you talk about managing good services, you are talking about creating and delivering services in a constrained environment in the community. There are not the dollars to deliver that quality. We are talking about a foster family that needs people to visit them, and you cannot visit them as often as you need, and we are talking about families that might need aides to come in and help with the babies and parenting, and the money is not sufficient. What you need to do in terms of quality is maximise the cooperation in that sector, in that area.

CHAIR—We have got a perfect example here. Here are two organisations here making a joint submission. I mean, you are cooperating. What is the key? What is the clue?

Ms Kirkegard—I am just querying that emphasis on quality, actually.

Mr ALLAN MORRIS—The point I am trying to raise is that, it seems to me, looking at all the submissions and the comments people are making, governments at state and federal level for some time have chosen the competitive model as a way of getting better service and trying to get a better outcome for taxpayers' investment in these services.

That notionally says there is always going to be a cheaper service. You can always get the price down further. What you said earlier is that you cannot go lower, there is no more to be saved. What I am suggesting is that other people have argued to us, and to me privately, that if the service is properly run and well managed and is a quality service, it cannot be any cheaper. In other words, you cannot save if you have got a service which is totally quality certified, because there are no savings to be made. You can only make savings where there is no quality service, because that would not then show up.

If you cut the skill level, the quality system would throw up that you are actually underproviding, so part of the alternative model is a quality model rather than a competitive tendering model. In a sense, I could argue that they are in conflict. Adding to that next level as well, the same organisations are not only doing that, but they are also running more than one service for more than one government. That really does confuse the picture totally then. I see it as a confusion. I was partly trying to demonstrate, and also see if I could establish, how you are handling or analysing that potential confusion. Your first

observation is obviously very good, and I wanted to see how much further down the line that analysis of yours went.

Mr O'Connor—I understand where you are coming from, but I am not sure what the issue is. I came from an agency where I had 30 programs, both Commonwealth and state funded. They were quite clearly Commonwealth or state. You could not use this money to do this, and you could not use that money to do that.

Mr ALLAN MORRIS—Who paid the phone bill?

Mr De Carvalho—They were split on a percentage basis.

Mr ALLAN MORRIS—On what basis?

Mr De Carvalho—One of the irritating things service providers find is that they have bureaucrats coming in and saying, 'Well, you've got X number of staff in this program and X number of staff in that program. We want you to rule up the share and work it out.' This is where a partnership comes into play.

Mr ALLAN MORRIS—What I am saying is this. What they want you to do is to say, 'We think you're getting a bigger share of the overheads in that program from our program, and we want you to shift part of your overheads from us to them.' That is going on all the time, so in effect you are being asked to cost-shift.

CHAIR—We will make this the last question, please.

Mr O'Connor—I will just make a comment on Allan's original query about whether we are obviously pushing our own barrow. I think that our role as a social policy group is to indicate some of the concerns that we see in the sector, and sound the alarm bells to the government, which we have been doing consistently on this since at least 1991. At the end of the day, whether you take notice or not of us is irrelevant. It is not irrelevant to us, but it is something unique to consider. In the process, unless things begin to get sorted out, you will have continued instances where church agencies say, 'We are not going to provide that service,' and the reality is if you alienate all of the churches, you simply will not have anyone providing the services.

Mr ALLAN MORRIS—The point I made to you was the point that the departments have been making to governments since 1991. I have been hearing it for all that time.

CHAIR—The last question, please.

Mr ALLAN MORRIS—I am trying to encourage you to answer it because I think there are answers to it. I am trying to encourage you to answer it in an open way because I think it is being normally said sotto voce. I am bringing it into the open because I think it needs to be discussed and talked about publicly because I think there is an answer to it.

Mr De Carvalho—I will try and give a very brief answer to it. You can reduce transaction costs and costs to government if you do not have to overregulate providers because you actually have some trust in them that they like to do a reasonable job. If you are going to be extremely suspicious that they are out to grab every dollar they can and do the minimum work they can, if you start treating them that way, they will probably start acting that way, but if you actually hand over some trust to those non-government organisations which have a record and an ethos of working for other people, not just for themselves, then you are going to reduce the costs of your contracting and you are going to reduce the costs of your regulation. You are probably going to end up with a better service at the lowest price anyway.

CHAIR—We hear very strongly your message: partnership. I have heard it said quite a few times in your submission. I thank you for the time you have taken today.

[4.07 p.m.]

SULLIVAN, Mr Francis, Executive Director, Australian Catholic Health Care Association, 57 Hicks Street, Red Hill, Australian Capital Territory 2603

CHAIR—Before I proceed, I need to point out that while this committee does not swear its witnesses, the proceedings today are legal proceedings in the parliament and warrant the same respect as proceedings in the House of Representatives itself. Any deliberate misleading of the committee may be regarded as a contempt of the parliament.

Your submission is already received and incorporated in the published submissions already distributed as part of the inquiry. I will give you an opportunity to make an opening statement if there are any points you wish to make in addition to your submission, before we proceed to questions.

Mr Sullivan—Thank you very much, Mr Chairman.

CHAIR—Perhaps one thing you could explain for my edification is the distinction between your organisation and the association we just heard before.

Mr Sullivan—Sure.

CHAIR—It is a fine distinction, is it?

Mr Sullivan—No, it is quite clear. The Catholic Health Care Association covers 57 public and private Catholic hospitals, over 500 aged care services, nursing homes, hostels, community aged care and community health services across the country, so clearly our interests are primarily health care and aged care, whereas the previous commission is dealing in the area of social welfare.

CHAIR—Thank you for that.

Mr Sullivan—The reason why we gave the submission was somewhat to complement the welfare commission's submission, though there are many points in that that I am sure you will find have strong resonance with ours, and there were some aspects of theirs we did not put in ours, simply because of the need not to duplicate.

The basis of our submission goes to the foundational point about not-for-profit care, because it is our contention in the 1990s that the divisions are no longer about public and private sector. Policy is moving away from that notion. It is really going much more towards the sort of for-profit/not-for-profit orientation in human services. The orientations themselves bring with them parameters in which one would argue the quality issues that Mr Morris has raised, because at the end of the day, whether or not someone says it is a predictable line from a sector or organisation, it can only really be rationally debated if we agree on the parameters of the quality.

You will note in our submission that we particularly give you case examples of

competitive tendering in the area of hospitals, because increasingly this seems to be the orthodoxy of the day by state governments, and it has been used by the Commonwealth in the area of veterans affairs. It is purely a competitive tendering arrangement on price.

Although you will find many submissions from state governments that will argue that the tender is basically determined on a number of factors, quality being one, at the end of the day they always come down to price. Price somehow seems to be able to encapsulate these other nebulous issues, and it is easier to quantify and be accountable, it seems, in areas of public scrutiny. So we would argue that our experience over the last four years in hospital competitive tendering projects has been less than happy. That is my opening statement, Mr Chair.

CHAIR—I was wondering if you could run us through some specific examples of that. We have heard earlier today even from the Department of Veterans' Affairs, who assure us that there is a collaborative partnership approach taken to these things.

Mr Sullivan—I think I can start by talking about people in the private sector—and when I say that, I am going to qualify it by saying non-government providers, because if we just take the hospital sector, the major most sophisticated hospital provider is ourselves. Then you have another few. There is a trucking company that runs 37 hospitals, and there are a few others that basically are investment owned private hospitals that are increasingly becoming sophisticated in some aspects of high-technological health care. But for the over-100-bed private hospitals in this country, the predominant provider is the Catholic Church. Of those, as I said, 22 of them are public hospitals, privately owned. That is the concept I think that has basically given birth to this notion of how to privatise hospitals in Australia.

Secondly, state governments in my view are compelled to do this, rather than, as maybe David had said earlier, in a sense being captured. I think state governments are captured by the lack of capacity of funding of their public sector in hospitals, such that they want to now outsource the commercial risk of health care. So they go towards the private sector to, firstly, take the commercial risk on capital, because most of them during the period became strapped for capital, and, secondly, take the political risk for waiting lists, because they would like the private operator to wear the odium that 'Okay, we can't get these people into our hospitals.'

We have had all sorts of examples. In Victoria a couple of years ago the state government put out for tender psychiatric services in the Grampians region, close to people's hearts. The major private hospital in that area would be St John of God, Ballarat, and of course we have a good history of psych care, and we were quite interested in being able to become the public provider of psych services for that region—public and private services, community psych services and the like. But really, coming to some accommodation with the then state government bureaucracy on an appropriate price such that we did not compromise our mission to those people has still not been resolved some years later.

That is the key that I pick up from Mr Morris. The point is that if you have a

particular image of what your service is to be about, and you can argue that in terms of quality, quantity, accountability and excellence, then there comes a point in the process where you cannot compromise that, otherwise you compromise the identity of the service, which is a concept we have not said much about. But in our case the identity of the service is a lineal thing back to the onus.

CHAIR—But in that example, what is happening to the people who count the most, the ones who need the service that is not being delivered?

Mr Sullivan—The point in that case, you have to argue, is: who is responsible primarily for the people who need the service? If it is a public service, then one would argue it is the public payer. So if they cannot accommodate in their paradigm how they want that service delivered, then they have to ask themselves: are they financing the service appropriately?

CHAIR—So in the meantime we have people in the Grampians region who are not getting psychiatric service support. Is that right?

Mr Sullivan—If you are going to ask me is that an empirical comment I am going to make, I do not know, but the reality is that in the Grampians region at the time when they were doing this, some of the state psychiatric hospitals were releasing patients after 10 years without appropriate community psych services. That has been well documented.

CHAIR—Yes.

Mr Sullivan—Your question has to be: is it a fall out from the lack of resolution over a contract arrangement or is it the result of a broader policy decision by government? I would have to argue it is the latter.

CHAIR—That is a state government example.

Mr Sullivan—Yes.

CHAIR—Can you refer to Commonwealth examples?

Mr Sullivan—The Commonwealth examples that are closest to us would be where the Department of Veterans' Affairs, which used to own and operate hospitals, puts out to tender for those hospitals to be owned and operated by primarily the private sector. In the first instance oftentimes it used to be state governments, but I have not seen too many state governments take them on. So basically they put people out to tender. In most cases it comes down to price. I am probably going to get the chronology wrong, but the most recent one was probably Hollywood hospital, and there was one up in Queensland. The Concord hospital is an example where firstly it went to the state government.

CHAIR—That is the whole operation of the hospital in its entirety. But what about the individual service delivery?

Mr Sullivan—Our argument in these cases is this. There are two privatisation projects in Queensland at the moment, and both of these have five hospital groups tendering to be the preferred provider. As we say in the submission, it costs about \$800,000 per tender to get to the point of being seen as the preferred provider. In those cases, the breakdown is because a lot of the data that you are given initially to set you off on the task of putting together the tender gets changed as the process goes, and oftentimes because initially state government bureaucrats have not done this before—and anyone who is any good gets bought by the private sector—then you find someone else in the bureaucracy who has to quickly learn how to do a privatisation project.

Clearly it is pretty well on the public record that when some of the tenders have been let, it does not take very long until the price has to be renegotiated by the successful tenderer. So one has to ask: is the process fair? We have found that quite a significant number of the sort of services that we like to call comprehensive health care services are too expensive for a for-profit operator to want to run. But in the interests of the public sector, either the public sector has to decide if they will only go with a niche set of services such that they can attract the for-profits to bid for them, or, if they are going to go for a comprehensive array of services, they may find the for-profits not wanting to tender for what we would call the more expensive, less lucrative, and those that have a minimal return on investment. Then usually you find something in the middle where there is a minimalist service provided in the more expensive areas. That seems to be the recent experience.

I am not arguing the case that competitive tendering of hospitals is basically wrong. I am arguing the case that if we are going to do the competitive tendering of hospitals, I think we should be basically leaving it open only to the not-for-profits, because they have a stronger congruency with the philosophical position of public sector services, particularly in a program like health care, which is still an entitlement program, not a safety net program operated on risk rated arrangements.

Mr ALLAN MORRIS—Mr Sullivan, on an entirely different question, we had a witness this morning from the veterans' affairs department. I asked the question of them, and you may be able to clarify it. The Minister for Veterans' Affairs yesterday, or the other day in the parliament, said that some veterans will not be paying accommodation bonds for entry into nursing homes. I was asking whether or not the department was aware—and if they are not, whether you are—whether Veterans' Affairs actually went to tender to ask nursing homes what they would charge for veterans, if the government is going to pay the fee, and whether or not that fee was established on a competitive tendering basis. Are you aware of Veterans' Affairs calling for tenders?

Mr Sullivan—I am not, Mr Morris.

Mr ALLAN MORRIS—I will come back to another angle, which is again not in your submission, but it is to do with case mix.

Mr Sullivan—Yes.

Mr ALLAN MORRIS—There appears to be some agreement in the health sector that case mix has some usefulness to us in terms of establishing funding models. I am not saying we can, but if we were able to establish a case mix profile, DRGs and so on, that set prices for particular conditions, then that would be an alternative way. In a way that is a bidding process, isn't it? How would that fit into things that you are putting forward in terms of how you see say the government reimbursing yourselves or paying private hospitals like yours for services?

Mr Sullivan—There have been two recent ways in which governments have decided to allocate resources. One has been on an individual basis like case mix where you have an average cost for what they call a diagnostic related grouping.

Mr ALLAN MORRIS—DRGs.

Mr Sullivan—The other has been on a population basis, where it might take, say, the Hunter area. They do it on an age-sex weighted profile. They basically say, 'There's your clump of dough; look after those people across the broad spectrum of services.' Now we are finding that it is a combination of both, that they will try and DRG the risk inside that. Our view is that that is probably an inevitable trend. In the United States you will see it go one step further and they will capitate it.

Mr ALLAN MORRIS—Capitate it?

Mr Sullivan—Well, I will just say when the money runs out, so does everybody else.

Mr ALLAN MORRIS—How does that fit into this spectrum of things? We have got grants and partnership things where governments allocate funds to certain programs. We have got competitive tenders, we have got contracting out, and we have then got, if you like, fee for service by DRGs or something similar. There is a whole kaleidoscope of different ways of doing it, isn't there?

Mr Sullivan—Yes, because health care is not easily financed, as you would appreciate, and we still have a very strong fee for service model in the private sector which is being driven by the professions. We have a very deliberate capitated model in the public sector that is driven by the requirements of an entitlement program which you must ration. As the two sectors merge so do two cultures, and the reality for us in the future, of course, is that with universal health care we are going to have a social insurance which should give people access to services where they live by private and public operators. That inevitably will lead us to a change in the fee for service model.

The only way, it seems to me, that the Commonwealth is trying to steer that is by basically rationing the public sector such that people get sick of it and move and use private services, get frustrated because they end up paying too much or too much extra, and place some sort of commercial pressure on the providers. Thus you see the debate we are in in the last 12 months, where the federal health minister would argue that the private sector cannot cooperate in order to bring down the price of premiums, and where the

reality is that private hospitals are doing very well on the utilisation rates, which in themselves bring up prices of premiums.

We are in one sector which is called cost plus; the other sector is capitated through a rationing program. That is how the financing system is working. Unless we can decide that Medicare becomes your social insurance wherever you receive the service, from whomever you receive the service, rather than having social insurance competing with private insurance—until we can break that nexus we will continue to have that sort of confusion.

CHAIR—It might be happening naturally.

Mr Sullivan—I think some people would argue that the market will do this. My argument is that the marketplace is second to the policies of health care. It is too sensitive to leave to the market. Only little piggies go to the market; some of them come home disappointed.

CHAIR—That is right, with no toes. I think we have probably addressed most of our concerns. The submission is quite comprehensive, unless there are any further points you would like to make.

Mr Sullivan—I think it is important for the committee to send back some strong recommendations to the parliament—not to say you would not. What I mean is that this type of inquiry, I think, has quite a lot of national significance, and I would hope that the federal health minister is using the inquiry not simply to buy time on this debate but rather to help us lead this debate forward. There is no doubt that in what you would call health care services that are not so attractive to big money—and I am talking about things like disability services, particularly where people are receiving a health service—the competitive tendering and the contracting out process is basically drying them up.

I think it is all very fine for us to look at that in the parameters of the government's bottom line being healthy. The community is not, and I think our parameters in this debate have become far too narrow. There has been an orthodoxy now which means that if it is not cost-effective then it cannot be right. Thirdly, it seems to me, as was said earlier by the social welfare commission and Anglicare, that community sector experience is being devalued against a corporate model. We are finding that particularly the case in the hospital sector. If it is corporate and big, sophisticated and expensive, it must be good. Frankly, that is questionable.

CHAIR—We do not have a lot of those where I come from. They are usually very effective because they are not big.

Mr ALLAN MORRIS—In your submission you speak in your recommendations quite a bit about the continuum of care.

Mr Sullivan—Yes.

Mr ALLAN MORRIS—Of course, the problem we have with that continuum of care is that we have a discontinuum of process. So we start off with a person who requires perhaps a meal and we end up with someone who is in a nursing home or in intensive care. But the actual processes they will encounter along the way are often so inconsistent and so contradictory and so non-inclusive. So a continuum of care actually necessitates a continuum or consistency of approach.

Mr Sullivan—You are really writing yourself another reference, Mr Morris.

Mr ALLAN MORRIS—Yes, I know. But look at all the things in here. They are all in here: the current level of service provision, the adequacy of current monitoring performance. They are all part of the same thing; it is all part of the same inquiry.

Mr Sullivan—It is, but I think your question fundamentally goes to the way in which the Commonwealth and states decide to share risk between health and welfare services, and therefore you have got this constant exercise of both sharing and shifting risk. Therefore you will end up with program oriented funding, competitive tendering funding, fee for service funding, capped funding and the like. The point is that if you are worried about a continuum of care, the only sophisticated way you will ever get a continuum of care is with a single payer. Someone pays for a package of care from go to whoa and in the package of care, the providers are accountable to one payer. That could be the same in private health care as it is in Commonwealth-state relations on hospital care, as it is in Commonwealth-state relations in disability. As soon as you have more than one payer, you have the potential to shift the bad risks, you have the potential to lose clientele, and that is really what you are saying.

Mr ALLAN MORRIS—I accept that is one end of the spectrum, but there is another argument that the using of different models in itself may well be a device to create discontinuity.

Mr Sullivan—No, under the terms of reference of this inquiry if we are talking about competitive tendering and contracting, the presumption must be that you have a product that they want to buy, whether it is an integrated delivery system or whether it is a home for looking after disabled adults. That, in this theory, is your product, and you compete your product against someone else's on price.

CHAIR—This will be the last question. In other words, if you cannot define the question you should not tender it?

Mr Sullivan—And everyone has to agree what the parameters of the product does.

CHAIR—Mr Sullivan, thank you very much for your time today.

Mr Sullivan—Thanks very much.

CHAIR—Can I just get my resolution?

Resolved (on motion by Ms Ellis, seconded by Mr Morris):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 4.32 p.m.