

SUBMISSION

Pathways to a stronger, more diverse and independent community sector

Response to the Department of Social Services Issues
Paper

November 2023



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Summary of key points in this submission

The Susan McKinnon Foundation offers five recommendations in response to Area of Focus 3: Providing Longer Grant Agreement Terms:

1. Offer longer term grant agreements of 5+2 years with a steady, predictable stream of payments in return for delivering services or running programs as agreed.
2. Adopt a quasi-contractual grant-making agreement model.
3. Use the agreement to specify outcomes but offer flexibility to community sector management regarding how these outcomes are achieved.
4. Provide longer timeframes on national partnership agreements.
5. Provide active support during the grant-making process.

The Susan McKinnon Foundation also offers two additional recommendations in response to the General Question: What are the problems or challenges that have been overlooked?

6. Consider how to (re-)establish grant-making and procurement as skilled disciplines within the public service.
7. Public sector policymakers and grant managers should spend time in the community service organisations that receive government grants.

Introduction

About the Susan McKinnon Foundation

The Susan McKinnon Foundation (SMF) was established in 2015 by Sophie Oh and Grant Rule to make a positive and enduring contribution to the Australian community. SMF is named after Grant's mother, who instils the values of service and positive contribution in those around her. SMF is currently Australia's fifth-largest philanthropic foundation by assets.

The work of SMF is focused on making a lasting difference to Australia by enhancing the capability and effectiveness of our democratic institutions and government. Sophie and Grant believe that through smarter decision making, improved policy development and better service delivery, governments at all levels in Australia can create a society that is fairer, more prosperous, and has greater opportunity for all.

SMF takes a positive, practical and patient approach to creating these long-term improvements. It acts as an incubator, funder and implementor of bold ideas and long-term transformational initiatives to improve our governments and democracy. Its work is driven by evidence, not ideology, data not rhetoric. SMF is non-partisan. It partners with people and organisations with good ideas driving positive results, regardless of political affiliation.

SMF's interest in this Issues Paper

SMF has a vision for Australia's publicly funded services to be world class. Public servants who manage frontline services need to be empowered and incentivised to deliver better outcomes for taxpayers and users of government services, delivering excellent value for money for governments. These outcomes are important in their own right, but also will contribute to rebuilding trust in government, and strengthening the public institutions that are pivotal to a healthy democracy. The community services sector is part of the government's supply chain. If core public services are compromised because of the way grants are provided and managed, government trust could be further eroded.

One of SMF's key programs of work is focused on improving public sector service delivery. This program area seeks to identify and use levers for improving the effectiveness and efficiency of publicly funded services. One lever that SMF has been focused on is innovations in public sector management. These can be stifled or enabled by governments, contingent on how delegations, grants, agreements, and partnerships are made and monitored. SMF therefore has relevant evidence and insights to share in response to several of the areas of focus outlined in the Issues Paper.

This response is focused on the areas of focus that are about the processes through which grants, agreements and partnerships are established and maintained. Our submission therefore addresses Area of Focus 3, and points to a potentially overlooked challenge – the capability and capacity of the public service.

A note of affirmation, and a challenge

The Government's election commitment to a stronger, more diverse and independent community sector is notable, and commendable. The Government have made budget announcements to support their election commitment. For example, 2022-23 and 2023-24 Budget announcements provided \$560 million additional funding over four years to community sector organisations, followed by updated indexation frameworks to account for higher inflation and the impact this has had on services delivered.

Yet, ongoing funding increases *alone* will not be realistic nor effective for improving service quality and outcomes. Attention must also be paid to how funds are distributed and over what period, the degree of autonomy that managers of community services have over how funds are spent, and how management are held accountable for achieving efficiencies, quality improvements and better

outcomes. Given the essential nature of community services for a healthy, fair and functioning society, it is vital that government does contracting and grant agreements well. Attending to these issues will make the funding dollars work harder.

Area of focus 3: Providing longer grant agreement terms.

Our feedback in relation to this area of focus draws on service delivery improvement research conducted by Prof Gary L. Sturgess, supported by SMF, that has provided powerful insights that are relevant for building a stronger, more diverse and independent community sector. The evidence-informed insights we offer here are about how to use longer term grant agreements while still ensuring accountability to outcomes, and flexibility to adapt over time to emerging needs. Box 1 provides a summary of one of one particular case study illustrates how longer-term and mutually binding delegations and financial agreements enabled cost savings and service improvements.

Box 1. John Morony Correctional Centre Case Study Summary

The John Morony Correctional Centre is a 440 medium / maximum security remand facility located in the Francis Greenway Correctional Complex, 5km south of Windsor in Northwest Sydney. In 2017 a public sector team outcompeted three multi-national firms to win a 12-year agreement to run John Morony. While not a grant, (it was a management agreement), many of the same features can be applied. This agreement was used as one (of several tools to drive impressive improvements, including:

- Cost savings of 30% per inmate, relative to the average cost of all other public correctional facilities.
- Improved service quality, with two-thirds of inmates voluntarily engaged in employment and increases in out-of-cell hours from <6 to 8.
- Improved safety, with low and falling rates of both inmate-on-inmate assaults of assaults on staff.
- Improved staff morale and workplace culture, evidenced by low and falling numbers of staff misconduct matters, and sick leave rates reduced by 50%.

Several of the critical access factors related to how the financial agreement was designed and managed, including:

- **Commitment:** The mutually binding, 12-year, quasi-contractual agreement set out what management would deliver and how it would be measured, consequences for success and failure, what financial resources would be made available to deliver those results and over what period.
- **Performance management:** The performance management approach for John Morony was successful because it set out clear objectives, gave management certainty and space to innovate, while holding them accountable for results.
- **Financial management:** The management team at John Morony received a predictable stream of payments in return for delivering services. They also faced meaningful incentives, including financial abatements if they failed to meet targets.

DSS can develop and use a grant-making model that enhances clarity of expectations and creates mutually binding commitments on both sides. A poorly conceptualised grant-making model can (inadvertently) incentivise the wrong things and/or limit the capacity of community sector organisations to be able to successfully deliver on their commitments. Yet, if DSS can get the grant-making model right, it can be a powerful tool for enabling efficient and effective service/program delivery.

We offer the following recommendations:

1. Offer longer term grant agreements of 5+2 years with a steady, predictable stream of payments in return for delivering services or running programs as agreed.

This provides community service organisations with absolute clarity about their financial resources, enables them to invest in innovation and quality improvement, and provides enough time to meet stretch objectives. Short term grant-making incentivises the setting of easy-to-achieve performance objectives that often do not reflect high standards of quality or effectiveness. Longer term agreements create space to set and achieve meaningful quality standards and consumer outcomes. There are also enormous workforce benefits which can serve to strengthen the capability and resilience of the entire sector. Longer-term agreements make it easier to recruit and retain top talent and minimise the 'leak' of knowledge and capability out of the sector.

2. Adopt a quasi-contractual, mutually binding grant-making agreement model.

Delegation in the form of longer-term agreements is not sufficient on its own to drive improvements in the community services sector. It must be paired with accountability. Quasi-contractual, mutually binding agreements that create accountability for performance objectives, with the ultimate objective being to achieve better outcomes for consumers (clients). The agreement should outline what outcomes must be delivered, how they will be measured and monitored, what the consequences will be for success and failure, what financial resources will be made available to deliver those results and over what period. Community services management must understand that they cannot request additional funding unless there has been a fundamental change in circumstances, and that there will be financial or other consequences for the failure to meet agreed performance objectives, outcomes or targets.

3. Use the agreement to specify outcomes but offer flexibility to community sector management regarding how these outcomes are achieved.

Grant-making often funds a particular program. One risk or downside associated with a longer-term agreement is that it locks program deliverers into doing the same thing over an extended time period, even if it proves to be inefficient, ineffectual, or simply not responding to changing or emerging needs. To address this, grant agreements should specify fixed high-level outputs and outcomes that are expected to be achieved, illustrate the intended activities that will (all going well) produce these outputs and outcomes, while also providing a mandate to adapt program delivery in response to data and insights that demonstrate the need to do so.

4. Provide longer timeframes on national partnership agreements.

The Commonwealth should consider longer timeframes for national partnership agreements where those agreements flow from state governments to community service organisations. Without this, state governments hold the funding risk if they extend agreements with community service organisations beyond the life of the national partnership agreement.

5. Provide active support for the life of the grant agreement.

Even when service provision is delegated to community service organisations through grant agreements, these are still government's services, and government needs to manage these relationships throughout the life of the agreement to ensure that they achieve the intended objectives.

A key insight that DSS must hold firm to is that the processes and tools used to procure or commission highly commoditised goods and services are different to those that must be used to effectively distribute and manage grants for complex community-based human services and programs. Building institutional trust and developing close working relationships with grantees that last for the full

lifecycle of the grant have been replaced with transactional approaches that often prioritise compliance to over collaboration. Compliance is of course crucial, especially in the context of service delivery for vulnerable individuals, families and communities. Nevertheless, compliance with the bureaucracy's requirements and the mandatory regulations will not, in and of itself, ensure good outcomes for citizens or good value for government.

Practices that build the government's trust and confidence in the community services sector, and vice versa, should be incentivised and encouraged. This includes creating and embracing opportunities for public service staff to 'jump the fence' and work as a partner to grantees in the community services sector. Collaborating on implementation problem-solving and program adaptation decisions not only ensures there are more resources dedicated to achieving difficult objectives, but it also creates opportunities for expectations to be clarified and aligned, and trust to be built. If the relational 'posture' of the public service is one of partnership for better outcomes, rather than of compliance monitoring, it may encourage greater transparency from community sector organisations (e.g., in risk and outcomes reporting).

Public service capability and capacity: An overlooked challenge

The Issues Paper invites input on the general question of what problems or challenges have been overlooked. We have observed that the paper is largely silent on the issue on what capability and capacity the public service needs so that policymakers and grant managers can operate in more contemporary and fit-for-purpose ways.

For the implementation of Recommendation 5 to be possible, the public service needs the relevant capabilities and capacities to act. We offer the following recommendations.

6. Consider how to (re-)establish grant-making and procurement as skilled disciplines within the public service.

Commissioning (in any form) and contract management should be recognised as distinct functions, and ideally, recognised disciplines. Some of this could be driven, supported or promoted by government departments or central agencies. Examples include communities of practice and professional development programs that draw on evidence-based practices for commissioning and contract management. One possibility would be to develop a community sector-focused project leadership program comparable to the Australian Major Projects Leadership Academy (which focuses on management of infrastructure projects).

7. Public sector policymakers and grant managers should spend time in the community service organisations that receive government grants.

This is consistent with a recommendation arising from the Royal Commission into the Robodebt Scheme:

Recommendation 23.6 – Senior Executive Service staff at Services Australia should spend some time in a front-line service delivery role and with other community partnerships.

The rationale for this recommendation, both in the current paper and in the Robodebt Royal Commission report, is to equip senior public servants with the exposure and insights they need to better understand the implications of the design and delivery of their grant-making programs. The Community Partnership Pilot provides a possible model for replication: experienced public servants (in this case, those managing grant-making programs) are co-located for a period with a community service organisation (in this case, a grantee) with the dual objectives of expanding their own understanding of frontline service delivery operations and offering their own expertise in government grant-making to build the capacity of the grantee.

Concluding comments

Better value for governments and better outcomes for citizens is possible. It is clear that DSS is giving careful consideration to how improved grant-making can be a powerful lever for driving these improvements in the community services sector. The right grant-making model that offers both delegation of responsibility *and* accountability to performance objectives can be used as a tool to enhance program effectiveness and efficiency. Yet, a tool is only as good as its user. Sound grant-making expertise as well as improved awareness and understanding of the realities of frontline service delivery in the public service will help to ensure that the government gets the most out of grant-making programs.



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