

# Chapter 1

## The referral

1.1 On 12 February 2015, the Senate referred to the Community Affairs References Committee ('the committee') an inquiry into the impact on service quality, efficiency and sustainability of the 2014 community service tendering processes by DSS. The committee was due to report by 26 March 2015. On 2 March 2015, the Senate granted an extension of 12 May 2015. On 11 May 2015, the Senate granted a further extension until 13 May 2015.

1.2 The terms of reference for this inquiry relate to three main issues:

- DSS' engagement with service providers including the clarity of information provided to these providers throughout the process;
- the effect of the tendering timeframe on service collaboration and on service users; and
- the potential and likely impacts of the tendering process on service users and advocacy services.

## The reform

1.3 In the May 2014 federal budget, the Government announced that it will implement 'improvements to the system of grants funding'. Community service providers would have to apply for grant funding under the new arrangements. The Portfolio Budget Statement outlined the reforms as follows:

A key focus for DSS in 2014–15 is implementing a new, broadbanded discretionary grant programme structure which will strengthen our capacity to deliver grant programmes, services and support to individuals and families. The broadbanded structure strategically aligns the work undertaken by the former agencies now comprised within DSS. It also maximises synergies across existing discretionary grant programmes to increase the effectiveness and efficiency of grants management. The smaller, and considerably more flexible, programme suite will create grant programmes that are more responsive to the needs of individuals, population cohorts and communities, and deliver improved value for money.

This new programme structure is part of the DSS approach to working more collaboratively with civil society organisations, in line with the Australian

Government's commitments. This approach is based on reducing red tape, providing greater flexibility and respecting the independence of the sector.<sup>1</sup>

1.4 The 2014 federal budget also announced a reduction in grants funding of \$240 million over four years. In the December 2014 Mid-Year Economic Forecast, the Government announced that a further \$30 million was to be cut from grants to community service providers.

1.5 In June and July 2014, the federal Department of Social Services (DSS) conducted a competitive tendering process for community service organisations to apply to deliver services. Organisations that wanted to receive funding to provide services would have to apply to DSS and meet the criteria. These criteria required the applicant to demonstrate the community need for the service, how it will achieve value for money, the applicant's experience in planning and delivering the service and its organisational capacity to do so.

1.6 The tendering round offered \$646.06 million in funding spread across 26 program areas. DSS received 5558 applications—a funding request totalling \$4.1 billion. In total, 884 organisations were successful (see Appendix 4).

1.7 The competitive tendering process was a significant challenge for a sector that had limited time and resources to do so. As this report highlights, the process also posed significant logistical and stakeholder engagement challenges for DSS. However, the reasonable expectation of DSS by stakeholders and the wider community is that the process would:

- be fair and transparent, complying with the Department of Finance and Administration's *Commonwealth Grant Guidelines and Rules*;
- provide sufficient time for providers to understand the reason for, and the priorities of, the reform;
- be planned strategically, with a clear sense of the service gaps and areas of geographic need, and be based on an assessment of how the tendering process would enhance the capacity of the sector to meet these needs;
- enable providers to engage with DSS and receive timely feedback to their specific concerns;
- provide sufficient time and support to prepare innovative and collaborative application (as per the government's stated intent);
- provide clear feedback to successful applicants on why and for what they were successful and sufficient time for them to consider and sign a contract;
- provide clear and timely information to unsuccessful applicants; and

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1 Department of Social Services, *Portfolio Budget Statements, Budget Related Paper No. 1.15A, Social Services Portfolio*, p. 25  
[https://www.dss.gov.au/sites/default/files/documents/05\\_2014/2014-2015\\_dss\\_pbs.pdf](https://www.dss.gov.au/sites/default/files/documents/05_2014/2014-2015_dss_pbs.pdf)  
(accessed 10 May 2015).

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- be properly reviewed by an objective third party to consider and judge whether DSS was able to meet all of these reasonable expectations.

## **The inquiry to date**

1.8 This is an interim report. The committee called for submissions by 20 March 2015. It received 97 submissions from a range of peak bodies and community service providers and held a public hearing in Canberra on 21 April 2015 (see Appendices 1 and 2). The committee thanks all those organisations who prepared a submission and gave evidence to the committee at the hearing.

1.9 The committee wrote to DSS in March 2015 to request various data relating to program funding and the number of service providers that applied for and received funding. These questions, and DSS' response, are in Appendix 3.

1.10 The committee received a submission from DSS and had the opportunity to ask questions of Departmental officials at the public hearing in April. On 7 May 2015, the committee received answers to questions taken on notice at the hearing.

1.11 However, a number of key questions relevant to this inquiry's terms of reference remain unanswered. The committee therefore intends to recall the Department after this report has been tabled. These answers, and the committee's full list of recommendations, will be the subject of a further report.

1.12 The committee also flags its intent to conduct a further public hearing to examine the impact of the tendering process at a regional level. Stakeholders have strong concerns that the tender process has created gaps in the delivery of services, particularly at a regional level.

## **Background**

1.13 In December 2013, the formation of DSS under Machinery of Government changes amalgamated 18 discretionary grant programmes from five former departments. In the May 2014 federal budget, the government announced that these programmes will be streamlined into the following seven programmes:

- Families and Community Services Programme;
- Housing and Homelessness Programme;
- Disability, Mental Health and Carers Programme;
- Home Support Programme;
- Residential and Flexible Aged Care Programme;
- Workforce and Quality Programme; and
- Ageing and Service Improvement Programme.

1.14 As an interim measure, the government announced that it would provide six-month extensions 'for the majority of existing grants' from 1 July 2014. There would

be 12-month extensions for grants transitioning into longer-term initiatives such as the National Disability Insurance Scheme.<sup>2</sup> DSS stated in May 2014 that 1,446 providers were given six-month extensions, 1,452 received 12-month extensions and 380 were offered five-year extensions.<sup>3</sup>

1.15 In January 2015, the Minister for Social Services, the Hon. Scott Morrison MP, announced that the Government will provide bridging funding to ensure continuity of front line community services. The Minister said:

Providers of ongoing frontline services under the grants programme will have their funding extended to 30 June 2015 while new services are properly established and clients are appropriately referred. For emergency relief service providers we expect a more rapid transition process and will extend current funding arrangements for these services to 31 March 2015.<sup>4</sup>

### **The rationale for the reforms**

1.16 DSS says in its submission that the streamlined arrangements represent the Department's 'commitment to administer grants in a more strategic and effective way'.<sup>5</sup> The Government's intent is to streamline the grants system and promote value for money through innovation and competition. As DSS told the committee:

...the needs and nature of people and communities have changed over time, as has the availability and the range of services. Some services have been funded by the department for long periods of time without being tested to see if different providers could deliver better or more innovative services to meet the changing needs of their community and clients.

Without an open process new organisations would never get the opportunity to receive government funding for the services or projects that they can and do deliver and have the potential to deliver.<sup>6</sup>

1.17 The 2014 budgetary decision to reduce grants funding by \$240 million over four years was a significant constraint. As DSS put it:

This reduction added a significant constraint on the Department's ability to maintain previous funding levels for services into the future, in line with

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2 Department of Social Services, *Budget Fact Sheet—Grants for social service providers*, <https://www.dss.gov.au/about-the-department/publications-articles/corporate-publications/budget-and-additional-estimates-statements/2014-15-budget/budget-fact-sheet-grants-for-social-service-providers> (accessed 10 May 2015)

3 Ms Barbara Bennett, Senate Estimates, *Committee Hansard*, 4 June 2014, p. 10.

4 The Hon. Scott Morrison, 'Morrison to fill front line service gaps in Social Service grants', *Media release*, <http://scottmorrison.dss.gov.au/media-releases/morrison-to-fill-critical-front-line-service-gaps-in-social-service-grants> (accessed 10 April 2015).

5 Department of Social Services, *Submission 70*, p. 7.

6 Ms Barbara Bennett, *Proof Committee Hansard*, 21 April 2015, p. 74.

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stakeholder expectations, as the existing grants neared their expiry on 30 June 2014.<sup>7</sup>

...

This reduction in funding presented a significant budgetary constraint for the Department to manage while implementing the new grant arrangements. While the Department always takes available resources and community priorities into consideration when conducting funding rounds, this reduction required a particularly strong consideration of high priority areas of need along with alignment to Government and Departmental policy priorities. Funding levels were determined to ensure critical services were available to support Australia's most vulnerable people. With the Department's grant funding reduced, the Department could not maintain previous funding arrangements.<sup>8</sup>

1.18 The Department explained the need to reduce duplication in programs:

The programmes from the former agencies had many instances of duplication across services. This created inefficient policy development for the Department and confusion in the sector, who found it difficult to identify the differences between some programmes that were similar in policy focus. For example, there were instances of duplication in the former children and parenting programmes between state and territory government policy responsibilities and other Commonwealth agency policy responsibilities, particularly as child care and early childhood education are funded by other Commonwealth programmes or agencies. There was also a high degree of locational overlap with other like services funded by former agencies.<sup>9</sup>

1.19 DSS also highlighted the need for the sector to face greater competition:

The Department's grant programmes also needed to better foster innovation in the community services sector ('the sector'). Some areas of the sector had not been subject to a competitive selections process for a considerable period of time. This has resulted in many new and different community service providers being excluded from funding opportunities. This has resulted in the composition of funded services remaining fundamentally the same for an extended period of time, despite new communities of need having arisen. For example, Emergency Relief services had not been subject to an open selection process since the 1970s and programme reform would allow the opportunity for new providers to apply for funding.<sup>10</sup>

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7 Department of Social Services, *Submission 70*, p. 5.

8 Department of Social Services, *Submission 70*, p. 7.

9 Department of Social Services, *Submission 70*, p. 7.

10 Department of Social Services, *Submission 70*, p. 7.

1.20 DSS described the reforms as 'part of the most significant changes that have occurred to grant funding in our department for many years'.<sup>11</sup> It added that 'the primary focus of DSS grant funding is and remains to fund services which improve outcomes for people'.<sup>12</sup>

### **The interim report**

1.21 This inquiry has to date received considerable evidence that raises serious questions about the entire tendering process. The committee has concerns that the government's express goals of innovative service delivery and improved outcomes for service users have actually been hindered as a result of the way that the tendering process was designed and executed. This report canvasses many of these concerns. Given the complexity of the issues associated with the tendering process, and that its impact is still to be determined, the committee will deliver its full recommendations at a later time.

1.22 This report focuses on the tender timeframes, engagement and communication with the sector.

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11 Ms Barbara Bennett, Proof Committee Hansard, 21 April 2015, p. 74.

12 Ms Barbara Bennett, Proof Committee Hansard, 21 April 2015, p. 74.