2024 | Contact for feedback: susan.helyar@act.gov.au

Background Briefing Paper

Value for Money in Human Services Procurement

Defining and Assessing Value for Money of Proposals to deliver ACT Government funded Human Services

April 2024

THIS PAPER HAS NOT BEEN CONSIDERED BY ACT GOVERNMENT SO DOES NOT REPRESENT AN ACT GOVERNMENT POLICY POSITION

Background

Guidance from Procurement ACT on Value for Money

Procurement ACT provides the following guidance on Value for Money in the PROCUREMENT BETTER PRACTICE GUIDE: SCE-01:

> A Territory entity must pursue value for money when undertaking any procurement activity[1].
>
> Value for money means achieving the best available procurement outcome that maximises the overall benefit to the Territory.
>
> The *Government Procurement Act* 2001 (**the Act**) states that when pursuing value for money, Territory entities must have regard to the following considerations[2]:
>
> a) probity and ethical behaviour
> b) management of risk
> c) open and effective competition
> d) optimising whole of life costs and
> e) anything else prescribed by regulation.
>
> Pursuing value for money involves determining the extent in which a quotation or tender will deliver the optimum combination of the above considerations[3].

Procurement ACT also advises in this guidance material that:

> Value for money (VfM) is therefore, not about the lowest price offer, but an assessment of both financial and non-financial factors that contribute to the achievement of the desired procurement outcome.

Health and Human Services Commissioning Probity Plan

The ACT Government has adopted a Commissioning as the methodology to work in partnership with the community sector to scope community needs, design, fund, deliver and continuously improve human services delivered in partnership with NGOs:

> It is a methodology that ensures our system and the services and programs within it are meeting the needs of our community.[4]

The ACT Government Commissioning of Health and Human Services – Probity plan (Prepared by Proximity Advisory Services Version 1.0) specifies the following policy objectives for Commissioning:

> 1.4 ACT Government's intent in shifting to commissioning is to achieve:
> 1.4.1 Better response to community need, both existing and emerging, through increased flexibility and opportunities for innovation;
> 1.4.2 Improved integration across the service system to support seamless and holistic care, and transitions between services;

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[1] Section 22A (1), *Government Procurement Act 2001*.
[2] Ibid, section 22A (3)
[3] Procurement Values Guide.
[4] p 4 2022-2024 Commissioning Roadmap - Booklet 2- Commissioning as practice

1.4.3 Reduced pressure on our hospitals and other crisis services by prioritising prevention and early support;
1.4.4 Improved equity in health and life outcomes for priority population groups, as a result of commissioning decisions made about where and how to focus support; and
1.4.5 Improved sector sustainability through closer partnerships and better understanding the needs of our service delivery partners.

When announcing the Sector Sustainability Program in February 2023, the ACT Government announced it would move to a relationship and resourcing model for the partnership with NGOs that will enable a vibrant, diverse and sustainable community sector. The definition of a vibrant, diverse and sustainable community sector has been documented in the ACT Government Response to the Counting the Costs Report and Recommendations[5] and included in the following definition[6]:

A sustainable, vibrant, and diverse sector:

- attracts funding (through all sources) that covers the full cost of service delivery;
- has a skilled, stable, and supported workforce;
- has strong data and research literacy;
- focusses more on value and less on cost;
- meets the needs of a diversity of clients;
- enables clients to exercise choice regarding which provider best meets their needs; and
- contains an evolving mix of small and large; new and established; local, regional, and national; specialist and generalist organisations.

Values

Human services procurement planning and evaluation needs to incorporate both the general values guiding procurement as outlined in the ACT Government PROCUREMENT BETTER PRACTICE GUIDE: SCE-, and the values guiding human services Commissioning.

The ACT Government procurement values are:

- probity and ethical behaviour
- management of risk
- open and effective competition
- optimising whole of life costs and
- anything else prescribed by regulation[7]

The ACT Government Charter of Procurement Values recognises that pursuing value for money goes beyond financial considerations. Territory entities must consider ethical, environmental, economic, and social factors which can be achieved through a procurement, to support the pursuit of value for money during the plan phase of a procurement.

[5] ACT Government response to the Counting the costs: sustainable funding for the ACT community services sector report. (nla.gov.au)
[6] p. 7 ACT Government Commissioning Cycle Strategic Investment Plan template
[7] Section 22A (1), Government Procurement Act 2001

The values guiding Commissioning are:

Purpose driven	**Relationship focused**	**Recognising complexity**
We are guided by shared outcomes, with a focus on problem solving and solutions, ensuring this work provides value to all stakeholders.	We have just relationships which are based on commitments to respect, trust, care, concern, and dignity.	We develop understanding and solutions that respond to the dynamic and interconnected nature of complex problems and systems.
Inclusive collaboration	**Communicative and transparent**	**Deliberative**
We effectively engage diverse participants in genuinely inclusive processes.	We engage in real dialogue. Our communication is grounded in genuinely listening and responding to the voices of all stakeholders.	We move away from traditional power imbalances toward shared decision-making processes informed by evidence, as well as other Territory strategies and plans.
Contextual and flexible	**Value time and resources**	**Shared commitment**
There is no single way to go about commissioning. Each interaction will respond to complexity, cultural practices, safety, context, and the breadth of issues at hand.	We are respectful of competing priorities and the need to use time and resources wisely.	We commit to meaningful change and learning through experience.

Human Services Reform Agenda 2020-2030

ACT Government policy objectives for human services are outlined in the Human Services Reform Agenda 2020-2030:

Vision

Together we support Canberrans to thrive in the community. We approach commissioning as an opportunity; to do things better, to foster greater flexibility, creativity, innovation, and early support.

Outcomes

- Driving co-production and accountability between ACT Government and NGOs
- Furthering self-determination of Aboriginal and Torres Strait Islander people and communities
- Delivering person-centred, outcomes-based investment and contracting
- Developing better policy, systems, and governance
- Building Industry capacity, sustainability, and innovation
- Valuing data and research that drives investment and outcomes

The 2022-2024 Commissioning Roadmap - Booklet 2- Commissioning as practice (Commissioning Roadmap), outlines these ACT Government specifications for the operation of the human services ecosystem:

- Commissioning Shared Value: develop understanding and solutions that respond to the dynamic and interconnected nature of complex problems and systems
- Commissioning Foundation Practices:
  - Enable greater self-determination and equitable outcomes for Aboriginal and Torres Strait Islander people

- Ensure that investment is directed towards genuine outcomes for the individual, community, and system level, while recognising other benefits such as those of service user choice, building of social capital, increased connectedness, and engagement are also enabled
- Build a diverse, responsive, and capable non-government sector, including through a focus on workforce

The ACT Government Human Services Reform Agenda 2020-2030 includes the following Human Service ecosystem objectives:

- Better respond to community need, both existing and emerging, through increased flexibility and opportunities for innovation.
- Improve integration across the service systems to support seamless and holistic care, and transitions between services.
- Reduce pressure on our hospitals and other crisis services, such as homelessness or statutory services for children, young people, and families, by prioritising prevention and early support
- Improve equity in health and life outcomes for priority population groups, through commissioning decisions made about where and how to focus support.
- Improve sector sustainability through closer partnerships and better understanding the needs of our service delivery partners.

Risk assessment

Procurement ACT guidance materials state:

> Effective risk management throughout the procurement process is a key aspect of pursuing value for money. Territory entities must conduct a risk assessment for every procurement and review the risks and mitigations throughout the procurement lifecycle. Where procurement risk is well managed, the procurement outcomes are more likely to be achieved and the impact of a potentially catastrophic event can be minimised or avoided altogether.
>
> The effort directed to the risk assessment should be commensurate with the scale, scope, and complexity of the procurement to get the greatest value out of it.

Evidence base Informing Material to Strengthen Planning and Evaluation of Value for Money when Investing in Human Services through Procurement or Grants

Expertise

Work by the UK Government on assessing value for money in human services procurement[8] has found that good practice in human services procurement includes incorporating human services design, delivery and evaluation technical expertise into the procurement planning and assessment process. This expertise ensures the procurement team has a sufficient understanding of the service models, data and market conditions that impact on effective and high quality delivery of the social/economic/health/wellbeing issues the human services funding has been allocated to address.

Outcomes

In Human Services procurement Value for Money includes the following financial and non-financial outcomes: Economic, Efficiency, Effectiveness, Equity and Embeddedness.

Four of these outcomes have been defined by the Australian Institute of Family Studies[9]:

- **Economy:** this is the cost of the program inputs (e.g., people or resources). In order for those costs to be considered "economic", the *inputs should have been acquired at the least cost for the required level of quality*.
- **Efficiency:** this relates to the *value of program outputs in relation to the total cost of program inputs (at the required level of quality)*.
- **Effectiveness:** this is *achieving program outcomes in relation to the total cost of program inputs (at the required level of quality)* (Levin & McEwan, 2001)
- Some organisations also add a fourth dimension of **Equity** to VfM assessments, which refers to ensuring that *program benefits are distributed fairly to participants, stakeholders and/or the community* (Fleming, 2013).

The fifth value for money outcome has been discerned from the ACT Government Human Services Commissioning Roadmap:[10]

- **Embeddedness**: An organisation is *so well embedded in its community, and/or has a unique value proposition* in delivering on individual, family

[8] DFID's Approach to Value for Money (VfM) (publishing.service.gov.uk)
[9] Evaluation and Value for Money | Australian Institute of Family Studies (aifs.gov.au)
[10] 2022-2024 Commissioning Roadmap - Introduction (act.gov.au)

and/or community needs, and *government seeks to leverage the social capital/infrastructure* that the organisation already has in place.

Negotiation

Procurement ACT guidance materials state:

> Negotiations with the preferred supplier(s) should seek to improve the value for money outcomes of the procurement. Negotiations can enhance the value for money offering of a supplier's response by agreeing to a reduced price or increased non-financial benefits. Negotiations also provide an opportunity to agree on key performance indicators (KPI's) to track outcomes of a procurement to ensure they are achieved.

The Centre for Public Value at the University of Western Australia was engaged by the Commonwealth Bank of Australia to develop guidance material for non-profit organisations to support sustainable financial management practices[11]. This guidance material recommends the following key performance indicators for sustainability:

The Balance Sheet and Sustainability
Equity is the difference between the value of all of the assets and liabilities. It can be considered the net wealth or net worth of an organisation. It is this net wealth that is critical in ensuring ongoing sustainability of a not-for-profit organisation over its life. Sustainability is often assessed over three time periods, as described in figure 1 below.

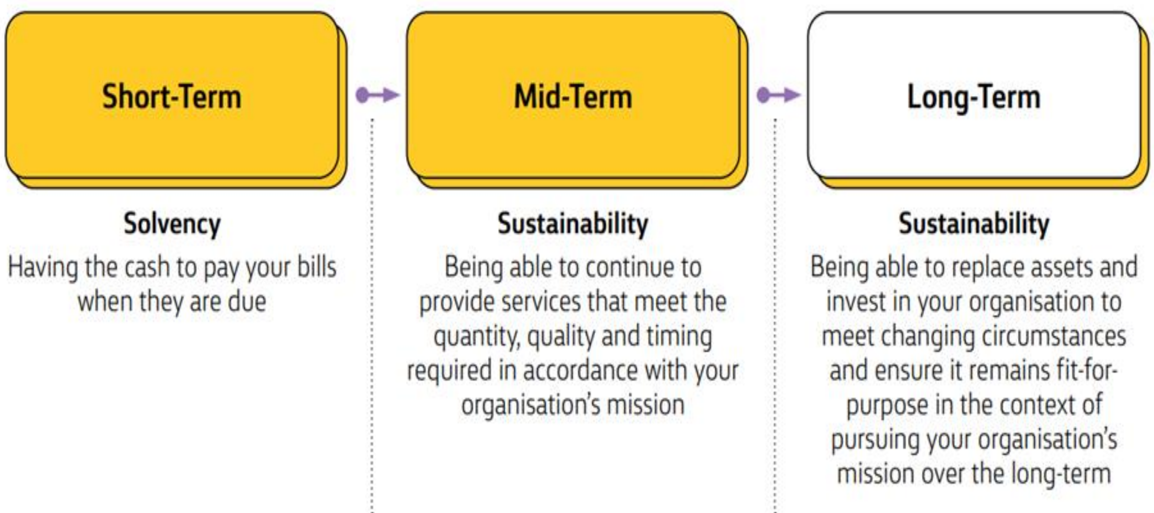
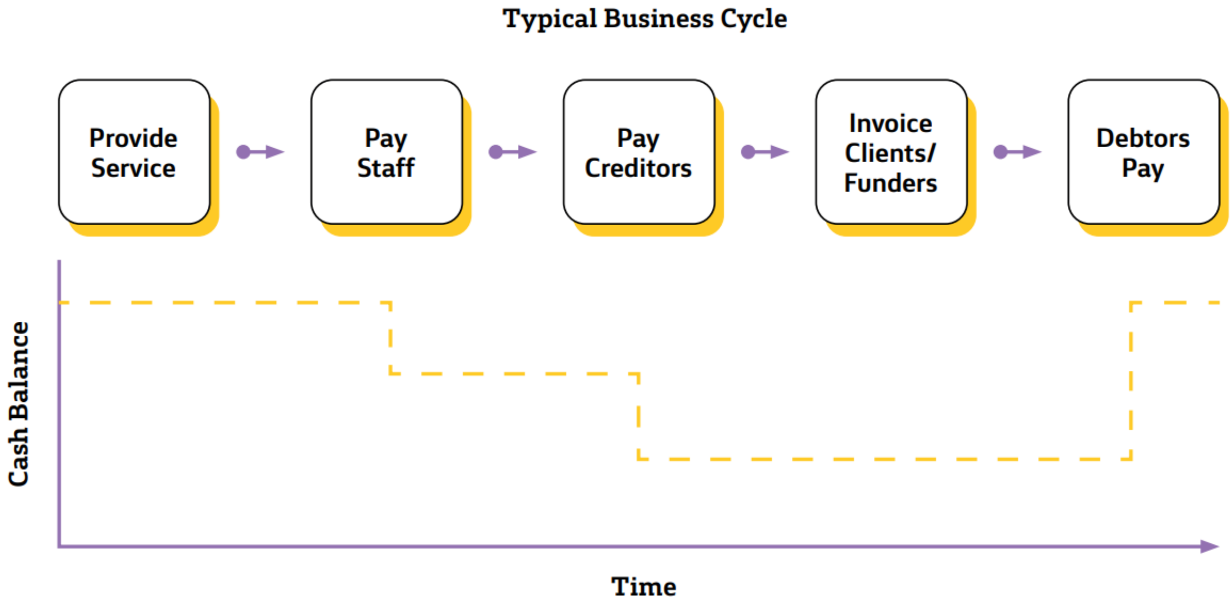


Figure 1: the balance sheet and sustainability

[11] 2020-CBA-Not-for-Profit-Balance-Sheet.pdf (uwa.edu.au)

Working Capital



Profitability (Surplus)

While balance sheet analysis does not focus on profitability, if an organisation is not profitable it is unlikely to remain solvent for a long period of time in a market economy such as that operating in Australia.

An organisation is profitable if its income for services rendered exceeds the cost of providing those services. All costs must be recovered, including depreciation (because asset usage costs the organisation over time) and human resources costs (such as long service leave that employees might not yet be eligible for). If these costs are not covered and a profit earned, cash reserves will be insufficient to allow for reinvestment in the organisation.

Profit should be used to:

1. replace assets as and when needed in order to maintain sustainability (see section 3);
2. provide emergency cash to support the organisation during periods of austerity (e.g. Coronavirus) to ensure clients continue to receive the supports and services they rely on and to be able to support client services while funding arrangements are being put in place (e.g. NDIS plan approvals / Emergency services); and
3. ensure the organisation has the financial flexibility to manage change processes, invest in new services and develop staff and capacity as environmental changes occur over time (including government policy, funding and philanthropy contexts).

Good governance requires profit targets to be developed commensurate with an organisation's longer-term financial plan. Profit targets should also inform decisions regarding service delivery mix and type so that services that are loss making activities but which are critical to the achievement of a not-for-profit's mission are offset by profit making activities. Finally, it is important to be able to explain your profitability goal because, although essential to sustainability, the importance of profit in the not-for-profit context is not always well understood either in the sector or the broader community.

Reserves

The development of cash reserves in an organisation is also an important contributor to long-term sustainability. A distinguishing characteristic of not-for-profits is the fact that they do not distribute profit to owners (nor generally do they raise money from them), so reserves are a way that they can seek to future proof their financial sustainability.

Reserves can be established in order to:

1. provide for cash necessary to pay out future cash outflows as and when necessary in order not to compromise the working capital of the organisation (e.g. 'cash backing' employee entitlements);
2. provide the board with time to strategically respond to instances of significant changes to business conditions (e.g. Coronavirus, drought, bushfire) or government policy (e.g. discontinuation of programs)—this is usually termed 'xx months operating cash'; and/or
3. provide for future change management and investment in staff and organisational capacity.

It is important to ensure any reserves retained are supported by an appropriate explanation in annual reports so that potential donors and other resource providers do not assume the organisation is able to operate without their ongoing financial support. Demonstrating sound governance by establishing and maintaining reserves does, however, also provide confidence to resource providers that the board is focused on the short-, medium- and longer-term sustainability of the organisation itself.

As with working capital, a balance should be struck between having not enough reserves and holding too much cash in reserves. The former situation compromises short-, medium- and long-term sustainability; the latter suggests that either the organisation isn't making as much progress towards its objects as it could be or that it could operate with less financial support than it has previously enjoyed.