Governments around the world are:

- Reassessing what services government is best placed to deliver and what should be delivered by the private and not-for-profit sector.
- Developing alternative models of delivery that attract new market entrants and game changers.
- Examining effective ways of introducing market forces to balance price, quality and improve productivity.
- Improve clarity around risks.
- Seeking to deliver government service in a leaner and more efficient way for the benefit of the citizen.

Rethinking public service delivery
A guide to new frameworks

A major shake-up of traditional public service delivery is underway as governments around the world rethink what they need to provide and how to meet growing demands for better, more personalised services with shrinking funds.

Many governments see that simply continuing to provide services in the same way will not achieve the step change required to protect public service provision into the future. A very different approach is required from government to develop a sustainable contestable market with a variety of delivery models and providers.

The most successful models are not just driving down cost but are connected to thorough policy processes that rethink the service outcome. Changing government buying arrangements can improve productivity by building a public sector economy that makes a difference to service outcomes, creates market behaviours that result in increased competition, and improve cost, quality and innovation.
Some key concepts

**Contestability** the concepts of contestability, commissioning, public sector economy, services integration, payment for outcome and social impact bonds are now part of the international language of public sector reform. It requires government to understand community needs and the optimal response and then to look at what services should be bundled and unbundled to make an attractive market offer. It requires considerable thought, possibly simplifying some current models as well as a clear view on what needs to stay ‘close’ to government. A number of levers will influence the route that is taken including market attractiveness, demand certainty, provider maturity and political acceptability.

**Commissioning** is a process whereby policy makers and governments use market frameworks involving non-public sector providers to drive better outcomes for public services. Instead of needless involvement in everyday operational matters, governments monitor and quality assure the performance of service providers. Competition between providers ensures services are delivered efficiently and in ways that meet the needs of the community.

**Public sector economy** is a conceptual framework that applies an economic lens to understanding the impact of monopoly-like public service structures and operations. This sees the responsibility of the government as ensuring services are delivered, not necessarily as the service deliverer. As with other economies, innovation and broad-ranging economic benefits can be generated by a shift from an exclusive government monopoly structure to a mixed economy where the private and not-for-profit sectors also play a significant role in the delivery of public services. Government remains key to shaping and influencing these markets such as enabling market maturity to develop in parallel with the public services to be delivered.

**Services integration** is the management and delivery of services so that clients receive a continuum of services according to their needs over time and across different levels of the system. This recognises that an increasing number of people experience interrelated issues that cross traditional service program lines, for example, the interconnections between chronic health issues, unemployment and homelessness.

This approach seeks to improve efficiency and client outcomes by focusing effort on increasing coordination to transform highly fragmented systems where service delivery organisations work in isolation. This includes introducing strategies to make it easier to access services and navigate the system, reduce duplication and better sequencing of interventions to optimise results.

**Payment by outcome** links government funding to service providers to the achievement of particular success outcomes. These schemes are currently used across a broad range of government services. In the area of social policy, this includes criminal justice, employment, mental health, homelessness and child welfare. Such schemes offer payment outcomes that may include:

- Base payment with incentive and/or penalty payments
- Part payments at a particular point in time when outcomes are achieved
- Payment levels based on the cohorts’ level of outcomes achieved (at, above or below a baseline).

This approach enables government to share or transfer risk as base and incentive payments depend on service providers achieving successful outcomes. At one end of the spectrum, risk can be fully transferred when a failure to achieve outcomes means that the government pays nothing. At the other end, the base payment is protected and only the reward payment is at risk.

**Social impact bonds** are a complex form of payment by outcome. They introduce a third party to the arrangements, being private investors who fund programs being delivered by service providers. If service providers deliver outcomes which are realised as cost savings to the government, these cost savings are passed on by government to investors as reward payments.
Approach to rethinking public sector delivery

This approach sets out key contestability activities, which will flex depending on the services being considered, the evaluation criteria and strategic intent of the organisation and options being taken forward for consideration. These activities are typically supported by a robust project management, stakeholder engagement and governance framework.

1. Strategic Assessment
- What is our business?
- What services should we offer?
- Should these be contested and in what order?
- How should we evaluate the options?

2. Options Analysis
- What do our services cost today?
- How are they delivered?
- Could they be delivered differently and more cost effectively?
- For what gains?

3. Solution Design
- What is our future operating model?
- What new skills and capabilities does that require us to have?
- How quickly can this be done?
- How will we know when we have succeeded?

4. Implement
- Moving to the new models
- With the right skills and team to deliver and operate successfully
- Realising our planned benefits

Deliverables
- Strategy articulation
- High level service catalogue
- Evaluation criteria
- Market scan
- Better practice case studies
- Prioritised list of services for review
- Detailed service catalogue and service baseline
- Service model options
- Market sounding
- Option assessment and recommendations
- Business case
- High level implementation plan
- Target operating model
- Market engagement (contestability strategy)
- Service commissioning
- Service framework/governance model
- Detailed implementation plan
- Transition plan
- Staffing strategy and plans
- Process and system improvements plans
- Progress reporting

Note: Activities and outputs will be dependent on services being reviewed and the option being implemented.

Examples of service delivery models

Building a market
- Government gains clarity on future demand and market capability and capacity
- Analysis to understand pricing and service bundling to define an offer that is attractive to the market
- Government introduces market entry incentives to initially develop the market (where required), prevent market failure and build capacity to meet demand
- Market becomes self-sustaining over time and in a mature model is also self-regulating.

Mutuals/employee owned organisations
- Shared ownership structures which can involve a combination of employees, government and the private sector
- Enables access to new skills and capabilities while retaining an annualised revenue stream
- Drives stronger loyalty and high performing culture values due to personal ownership and responsibility.

Keep and improve
- Internal optimisation programs to deliver significant improvements to frontline service delivery
- Build and improve understanding of costs and demand forecasting
- Adoption of lean or similar principles to really understand process bottlenecks that are impacting service cost and quality
- Supplement service transformation with external resources to develop internal capability.

Partnering with the private and third sectors
- A number of different models and ownership structures available, including joint venture arrangements
- Enables government to retain some level of ownership and access to potential annualised revenues
- Results in access to new capabilities, capacity and funding
- Can involve franchising or licensing arrangements.

Managed services
- Ranges from introducing a thin management layer to a fully managed service, integrated into an end-to-end offer but delivered by a non-government entity
- Goals are set that are measurable and controllable, often with an outcome-based payment mechanism
- Reach back capability as part of the contract drives improved access to efficiency programs and innovation
- Risk share arrangements can be put in place to drive the desired provider behaviours
- Strong analytical layer to prove outcomes.

Restructuring
- Separation of delivery from policy to provide clarity on unit cost
- Ownership stays with government and clarity of unit cost used to change cross-organisation buying behaviours
- Adoption of lean or similar principles to really understand process bottlenecks that are impacting service cost and quality
- Better information drives improvement programs that focus on making the biggest impact on front line service delivery.
Outsourcing
• Third party takes over delivery of service either by transfer of resources or transition to new service
• Strong commercial capability required by government to negotiate the right deal
• Clear governance frameworks and outcome based reporting mechanisms established
• Service level driven and, often, a sharing of efficiency savings negotiated as part of the contract.

Payment by outcomes
• Reward for results not outputs
• Base payment with incentive and or penalty payments
• Part payments at a particular point in time when outcomes are achieved
• Payment levels based on the cohorts’ level of outcomes achieved (at, above or below a baseline).

Talk to us
Australia is well positioned to lead the way on shaping models that deliver the services that people want, stimulate the economy and deliver productivity improvements while preserving the essential values of public service and retaining our national assets.

Contact us to discuss the new models that are emerging at home and abroad that are delivering a step change in services using innovative cost and ownership models.

Infrastructure, Government and Healthcare
Michael Hiller
National Leader
+61 7 3233 3299
mhiller1@kpmg.com.au

Sector Leaders
Defence and National Security
Steve Clark
+61 3 9288 6937
steveclark@kpmg.com.au

Education
Elise Wherry
+61 3 9288 5667
ewherry@kpmg.com.au

Health, Ageing and Human Services
Liz Forsyth
+61 2 9335 8233
lforsyth@kpmg.com.au

Justice and Security
Penny Armitage,
+61 3 9288 6456
parmytage@kpmg.com.au

Transport & Infrastructure
Paul Foxlee
+61 2 9335 7438
pfoxlee@kpmg.com.au

Government Leaders
Federal
Cath Ingram
cingham@kpmg.com.au

New South Wales
Graham Brooke
+61 2 9455 9091
gbrooke1@kpmg.com.au

Victoria
Penny Armitage
+61 3 9288 6456
parmytage@kpmg.com.au

Queensland
Paul Low
+61 7 3233 9771
plow@kpmg.com.au

South Australia
Andrew Francis
+61 8 8236 3189
ajfrancis@kpmg.com.au

Western Australia
Lisa Bayakly
+61 8 9263 7482
labayakly@kpmg.com.au

Australian Capital Territory
Craig Sloan
+61 2 6248 1301
csloan@kpmg.com.au

Northern Territory
Denys Stedman
+61 8 8982 9002
dstedman@kpmg.com.au

Tasmania
Paul Green
+61 3 6230 4053
pjgreen@kpmg.com.au