

Contracting arrangements in children's services

Frank Ainsworth

A recent research study of contracting arrangements in children's services in Pennsylvania and Massachusetts is the basis for this article. Key issues in contracting including the positive and negative aspects of this approach to service provision for contractors and providers are discussed. Questions are also raised about the implications of contracting for the traditional differentiation between nongovernment not-for-profit and private for-profit organisations.

This article presents information and a viewpoint derived from a research study undertaken in Pennsylvania and Massachusetts, June and July 1992, into the use of contracting arrangements in children's services. The research involved interviewing a series of senior officials from service contractors (state, city and county) and matched contact providers (private and non government not-for-profit organisations). The purpose of the study was to identify the key issue contractors and providers face when the use of contracts is the dominant mechanism by which human services are funded. The article highlights the positive and negative aspects of contracting for both parties. The impact of this approach for the traditional differentiation between the nongovernmental not-for-profit and private for-profit sectors of the human service industry also receives comment.

Contracting is clearly an important topic given the emphasis in government circles on privatisation and a burgeoning overseas and Australian literature on these subjects (Booth

1990, Common & Flynn 1992, Conside 1990, Hedley & Rochester 1991, Meyers 1990, Seddon & Castles 1992, Springer 1991, Whitfield & Stewart 1991). Contracting is the prime mechanism that is used to implement privatisation. Australian human service organisations that provide children's services urgently need to establish a detailed understanding of these issues.

What is contracting?

Many nongovernment human service organisations in Australia receive funds to support their services from federal, state or local government sources. Various mechanisms are used to distribute these funds. Funds may be allocated as a general operating grant tied to the provision of a range of services, or they may be for a specific project following a call for submissions. Funds in the form of a fee subsidy are also available in some service areas. Finally, funds may be made available to cover a deficit which has occurred as a consequence of providing services deemed desirable by government.

Agreements between nongovernment human service providers and government organisations regarding proposed services are increasingly specific in terms of the type, location and quantity of services expected for the grants or subsidies paid to an organisation. Indeed, formal 'service agreements' between nongovernment and government funding authorities increasingly contain elaborate details of the service to be provided.

'Service agreements' are different from 'contracting arrangements' although there are areas of overlap. The basis of funding in contract situations is certainly different. In contracting, funding comes in two forms: program funding or unit of service funding, both of which may contain itemised components. General operating grants, deficit funding or fee subsidy schemes are not part of the contracting scene. An example of overlap is when a contract requires a provider to recover part of the cost from a service user. In that instance, a contract with that requirement based on the unit of service format, could be construed as being in the form of a service subsidy. Contract arrangements may, in some instances, be comparable to specific project grants resulting from competitive submission processes.

The purpose of the study was to identify the key issue contractors and providers face when the use of contracts is the dominant mechanism by which human services are funded.

In a contracting environment, the government authority (state, city or county), as the contractor, calls for competitive bids for a clearly specified service. Potential providers then submit a detailed bid, which

Frank Ainsworth is well known internationally for his writings on child and youth care issues, especially residential practice. He has held senior academic positions in Schools of Social Work in Britain and Australia.

Currently he teaches at Edith Cowan University in Perth in both a Bachelor of Social Science (Children's Studies) and a Bachelor of Social Science (Human Services) degree program and acts as the coordinator of the latter.

Edith Cowan University, Joondalup Campus, Perth, Western Australia, 6027

indicates how the organisation will fulfil the contract, and at what cost (per program or unit of service). Bids will be accepted from any source, and this sometimes includes private for-profit as well as nongovernment not-for-profit organisations. In some places government authorities appear reluctant to enter into contracts with profit making enterprises. However, all organisations will have to establish their credentials as eligible providers prior to the submission of bids. This process involves the provider demonstrating that they have observed relevant legal statutes and ordinances, are financially capable of supporting a contract, have relevant staff expertise and other similar matters. After due consideration of the bids, a contract will then be awarded for a limited period of time by the service contractor to the favoured provider. This decision will be made on the basis of the provider's demonstrated expertise in the relevant service area including their minority status, track record in relation to the satisfactory completion of previous contracts, and price. Contrary to some expressed views, price alone is unlikely to be the sole factor that determines the award of the contract, although it will not be unimportant.

In well developed contracting environments, like Pennsylvania and Massachusetts, service contracts now cover a vast array of children's services: adoption, residential treatment, group homes, long day care, family day care, after school care, day school, vacation care, remedial education camps, delinquency prevention programs, family preservation programs, intensive family based services and much, much more. Indeed, it is hard to imagine any service which cannot be made the subject of contracting arrangements!

The contractors' viewpoint

For the contractors, there are several perceived advantages of purchasing services in this manner. The cost of services can be reliably forecast by the contractors, and this helps the contracting authority to stay within a yearly budget allocation. Budget overruns become a thing of the past. Contractors also argue that contracting gives them

greater flexibility in terms of their ability to change both the mix and direction of the services they provide. Services can be targeted more carefully, and new service models can be tried, tested, modified and terminated with greater speed. It becomes possible to terminate or just not renew a contract, and to cease providing a service which is no longer required. Service contractors may then use the freed-up funds to respond to other needs.

Of course, much of this flexibility stems from the fact that contractors in a fully developed contracting environment cease to be the employers of most direct service personnel. In this environment, they do not have to recruit personnel for new programs or contend with issues arising from existing appointments or conditions of service. They do not have to deal with the complex issue of staff training or the retraining of established service personnel. Essentially, contracting buys the government organisation labour market flexibility.

Effective contracting requires that the way in which the service provider fulfils the contract, and the quality of the service provided, are carefully monitored and evaluated.

However, the contractor is faced with some difficulties. Contracts have to be written carefully with service and legal issues in mind. This is a demanding task which requires considerable skill. Staff with detailed knowledge of human services, well developed contract writing skills, and an awareness of legal matters are expensive to employ.

Effective contracting requires that the way in which the service provider fulfils the contract, and the quality of the service provided, are carefully monitored and evaluated. Increasingly, service contracts contain both qualitative and quantitative performance indicators against which a provider's efficiency and effectiveness is measured. This monitoring of service outcomes is costly in terms of the contractor's time and money. Given the com-

plexity of many service situations, the general ability to specify clear service outcomes is not well developed in the children's services fields. The contractor's staff may also have limited skills in this area, especially in regard to evaluation. Contracts may be awarded that cannot be adequately monitored by the contractor during their lifetime or evaluated on completion or prior to renewal.

In Pennsylvania and Massachusetts, contractors are aware of this limitation and are clearly investing time and money in an attempt to develop more sophisticated monitoring and evaluation mechanisms. They would acknowledge that, for now, this limitation is an impediment to the efficient and effective use of service contracting in the human services industry.

The providers' viewpoint

Contracting from the providers' point of view, offers a clear funding base for the period of the contract. However, the contract is unlikely to be generously priced and may not even be renewed at the end of the contract period. As the contract contains a clear specification of the type, location and quantity of service to be provided, pressure to provide other extraneous service components are avoided. The provider only provides what is specified in the contract and paid for - no more, no less. If the contractor wants more, they must pay more. In fact, contracting heralds the possibility of governments having to pay the real cost of some human services.

To date, many nongovernment organisations have not been fully reimbursed for the services they provide to government. The shortfall is met by raising funds through public appeals and private endowments. These funds are then used to cover operating costs or for capital works. In effect such funds represent a subsidisation of services for which it can be argued that government authorities are legally responsible. When they advertise for service providers in a contracting environment, government authorities are openly acknowledging their responsibility for the services being sought. Given this situation, it is legitimate to suggest that they meet the full cost of providing these services.

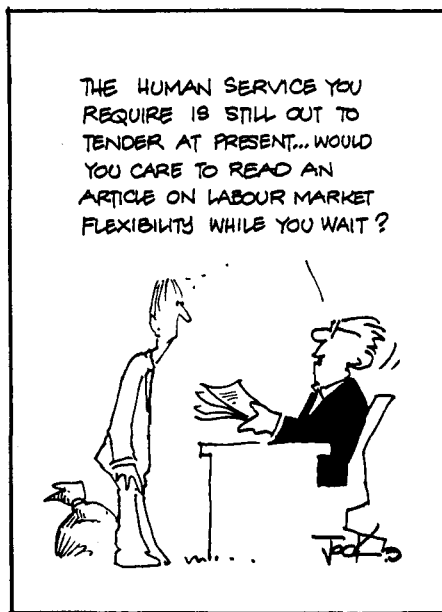
Cost sharing or subsidisation between government and nongovernment organisations is an arrangement which, in a non contracting, less aggressively business-like environment, may be viewed as an acceptable practice. Service partnerships are encouraged, competition is limited, and relationships between the government and nongovernment organisations are cooperative. Contracting erodes this type of relationship as it shows that government as the contractor, and nongovernment organisations as providers, are separate entities with different interests to protect.

Whilst the two sectors continue to cooperate, sooner or later nongovernment organisations question the wisdom of subsidising the cost of providing services which government requires. Provider organisations begin to carefully cost their services and these costings are reflected in the bids they then make for service contracts. In essence, contracting increases the expectation, as well as the potential for, human service organisations to recover from government the full cost of service programs. Although in Massachusetts, in an attempt to prevent or at least delay this development, the state has created a pricing catalogue for all the services which they intend to purchase. This catalogue is a price-fixing mechanism which so far has been maintained even in the face of legal challenge.

However, a potential service provider is faced with many difficulties. As stated earlier, the cost of establishing the provider organisation's credentials as an eligible bidder, can be very onerous for a new entrant, and this requirement has to be met prior to the acquisition of a contract. These costs are difficult to incorporate in contract prices and therefore may not be recoverable. It is vital that the price quoted in contract documents reflect the real cost to the organisation of providing the service. Thus children's service organisations in a contracting environment require considerable financial costing expertise. To win a contract, and then find that the service costs more to provide than the contractor is paying, is not a happy situation. Many contractors also demand that tender documents contain itemised expenditures to justify the quoted price. They may then exclude items if they consider them unjustified, and reduce the

quoted price accordingly. In this regard, the administrative cost component of contracts invariably receives particularly rigorous attention. Additionally, providers may find it difficult to factor into contract bids, items to cover existing or future infrastructure costs.

The emphasis that contractors place on monitoring the provision of services, on the performance indicators and the measurement of service outcomes, is also important. A provider organisation may have to put in place data collection systems to satisfy these monitoring requirements as well as heighten their emphasis on quality control and program evaluation. In some provider organisations, personnel are not skilled in these areas. Thus a further cost to the provider may arise because of the need to employ highly trained and expensive personnel with monitoring and evaluation skills.



A further dilemma for service providers stems from the labour market flexibility that contracting is designed to promote. Because of the uncertainty of contract continuity, provider organisations increasingly tie staff positions to the duration of a contract. If a contract is renewed, so then is the staff person's employment contract. If the contract is terminated, so is the staff position. Provider agencies have no choice but to act in this way. This, of course, has an organisational impact as well as consequences for individual staff members. From the provider organisation's perspective there can

be a loss of staff continuity, a weakening of commitment to the organisation and less identification with a culture of service. Individually, there may be fewer career progression or development opportunities as each new contract is a new job. Levels of remuneration may remain static, as the need to acquire contracts to guarantee the future of the provider organisation, may encourage the employment of fewer and less senior personnel. As a consequence, staff may lose the chance to develop greater skill because of employment discontinuity, as well as fewer opportunities to engage in more complex professional activities.

The impact of contracting

A clear impact of contracting appears to be the way in which it has the potential to change the traditional differentiation between nongovernment not-for-profit and private for-profit organisations.

As human service organisations begin to cost and evaluate services and move away from the notion of a cost sharing partnership with government, various value issues come to the fore. In developing a price for a service, human service organisations begin to factor in expenditures which traditionally may have received little attention. They begin to act more like business, and include items which reflect infrastructure costs, including costs associated with research, as well as the design and planning of new services. They also invariably try to provide the contracted service at less than the full contract price and to produce and retain any surplus funding. Questioned, they argue that this surplus has been generated through the efficient management of the contract. Indeed, given that all organisations, even those which provide human services, need to have some monetary independence, this may be desirable. This surplus in the business world is called a profit. Thus contracting pushes some nongovernment not-for-profit organisations to function more like business organisations. They slowly move towards the private for-profit end of this traditional continuum of organisational types. Contracting thus begins to blur the traditional way of differentiating between these types of organisations.

Of course, at this point, an argument is heard to the effect that if the government has to pay the full cost of human services, and providers are running a profitable business, then government should provide these services directly rather than contract for their provision. Unfortunately this argument fails to address the issue of labour market flexibility which contracting enhances, and direct provision by government organisations seems to diminish.

Another important aspect of contracting is that it can lead to further fragmentation of an already fragmented service system. This occurs because contracts are usually developed around single-focus, easily defined services. Yet users of these single service programs often have more than one service need. As a result, they may find themselves having to use a series of single service programs. Worse still, some services may be viewed as a low priority by the service contractors because of the inevitable budgetary constraints, and decisions may be made to fund only a limited range of services. When this occurs, any notion of an integrated or comprehensive service system ceases to exist. Although, it is worth noting, that some new individually designed wrap-around service models which are also the subject of contracting arrangements, are an attempt to address this issue.

Some remaining thoughts

The use of contracting as a mechanism for funding the provision of human services has positive as well as negative consequences. A positive feature is the way it forces contractors and providers to enhance their ability to accurately cost service programs. Because both parties are accountable under contracting arrangements, the development of monitoring and service evaluation technologies is also promoted. The development of these technologies is one of the challenges that now faces human service organisations. A further positive aspect is the way in which it may force government to fully fund some, if not all, essential human services, especially children's programs. Attempts by government, as in Massachusetts, to invoke price fixing mechanisms, may,

of course, forestall this development in the short term. However, the broad history of price fixing by governments suggests that while such mechanisms work in the short term, they do not survive for long.

On the negative side, concern has to be expressed about the potential for contracting to further fragment what many would see as an already seriously fragmented service delivery system. Another concern is the danger that contracting will undermine the all too rare opportunities for professional staff to develop expertise, and to build new knowledge about services for populations that are of special concern to human services personnel.

It is also clear that contracting, by the way in which it divides human service organisations into contractors and providers, highlights their different interests. The comfortable, if sometimes mythological notion, of a service partnership between government and nongovernment organisations in the provision of human services, is impossible to sustain under contracting. The focus on accountability to the government as the contractor for service quality, quantity and price, determines the relationship. It is an open question as to what this identification of the separate interests of service contractors and service providers implies for the future.

Another concern is the danger that contracting will undermine the all too rare opportunities for professional staff to develop expertise and build new knowledge...

The implications of blurring the traditional differentiation between private for-profit and nongovernment not-for-profit organisations which contracting brings, is also an issue. If, under contracting arrangements, nongovernment organisations become more like businesses, and are surplus or profit oriented, there is a question as to the continuing reasonableness of some of the tax and regulatory exemptions associated with their charitable origins and not-for-profit status.

With the seeming inevitability that contracting for human services, especially children's services, will grow in the next decade in Australia, all these issues demand serious thought. Certainly not-for-profit human service organisations need to be tooling up now, so that they are ready to do business (even children's services business) in the contracting environment of the not to distant future. A subsequent article will look at ways in which human service organisations can not just survive, but thrive, in such an environment. ♦

References

- Booth T. (1990) 'Taking the plunge' *Community Care*, September 26, 23-25.
- Common R. & Flynn N. (1992) *Contracting for care*, York: Joseph Rowntree Foundation.
- Considine M. (1990) 'Managerialism strikes out' *Australian Journal of Public Administration*, 49(2) 166-177.
- Hedley R. & Rochester C. (1991) *Contracts at the crossroads*, Rugby: Association of Crossroads Care Attendant Schemes.
- Meyers M.K. (1990) 'The ABCs of child care in a mixed economy: a comparison of public and private sector alternatives' *Social Services Review*, 64(4) 559-579.
- Seddon B. & Castles F.G. (1992) 'Present dilemmas for non government welfare providers' *Australian Quarterly*, Winter, 198-204.
- Springer M.E. (1991) 'Privatization: options and opportunities in public/private relations' *The Child and Youth Care Administrator*, 3(2), 25-27.
- Whitfield J. & Stewart J. (1991) 'Service with a smile' *Community Care*, Sept. 19, 20-22.

A note of thanks

Frank Ainsworth was Scholar in Residence at the University of Pittsburgh, School of Social Work, Program in Child Development and Child Care for the duration of this study. Thanks are due to the Program Director Professor Martha Mattingley and a valued colleague Professor Karen VanderVen for their generous support during this time. The state, city, and county officials as well as personnel from service provider organisations who were interviewed are also thanked for their assistance with this research.