7. Relationships with client departments

Relationships with other agencies are significant to public organisations. These relationships are especially important for a delivery agency that is defined in terms of the services that it provides for policy departments. This is even more the case when this relationship is formalised through purchaser–provider arrangements.

By far the most important relationship for Centrelink in its formative years was that with DFaCS. This accounted for most of its services. Centrelink also provided services to a range of other Commonwealth departments although the total proportion was relatively insignificant. They included DEWR, DEST, the Department of Health and Ageing (DoHA) and the Department of Agriculture, Fisheries and Forestry Australia (DAFFA). The most relevant central agency was the Department of Finance and Administration (DoFA) because of its role in overseeing financial management in the APS.

As Chapter 1 indicated, Centrelink was the product of an unusual opportunity in the mid-1990s, which dictated some of the features of the organisation in terms of key principles (such as purchaser–provider functions) and the need for streamlining to achieve savings. The original concept envisaged a policy/delivery split that would produce a large agency with several small policy departments. The delineation of the interface between policy and delivery ended up adding a middle area representing program management or operational policy. The department retained product design of delivery and program control and the policy department and agency competed in the middle ground.

There has been some confusion about the nature of the core relationship, how it should be conceptualised and depicted and the extent to which it has evolved with time. The relationship has come out of two impulses: one to separate policy and execution; the second to define the relationship in terms of purchaser–provider relationships. Neither required the other, and each was the subject of variation in practice.

**Bases of relationships**

Part of each role in a newly formed purchaser–provider relationship is to become skilled in contract management. This is complicated when each side includes former colleagues doing substantially the same job as before. The tension between the insistence on viewing the relationship as a partnership—as much management rhetoric has demanded—and a type of contract is an additional factor in the development of ‘smart buying’ skills. A further factor is the contrast between the concept of a one-stop shop, with its overtones of monopoly, and the
conventional purchaser–provider model, with implications of competition among providers.

On the other hand, as noted in a study of social security delivery mechanisms (Mabbett and Bolderson 1998:9), one of the rewards of studying devolved administrative systems is that institutional separation brings out into the open issues that are repressed internally in a centralised system. In the case of the Centrelink arrangements, there were ‘repressed tensions’ as a legacy of the old DSS and new ones embedded in the very structural arrangements that Centrelink represented (Rowlands 2003).

From the point of view of the departments using Centrelink, a key question was whether or not they could become ‘smart purchasers’ of the ‘products’ of Centrelink as a delivery agency (Kettl 1993). The most obvious problem was maintaining sufficient understanding of program delivery to inform policy development and to enable it to specify policy ‘products’ to purchase from Centrelink. As one APS departmental secretary noted: ‘A lot of the policy comes out of administration and policy that is developed without fully understanding the way it’s going to be managed, almost always goes wrong’ (Halligan et al. 1996:15).

Central relationships

The new agency’s relationships with its client departments were to be through purchaser–provider arrangements, governed by a contractual agreement with each. These agreements evolved from service agreements into more comprehensive documents entitled Business Partnership Agreements (BPAs). As discussed earlier, BPAs established the scope and provided the detail for a formal purchaser–provider relationship between two organisations, and were used to manage and review the operating and performance relationships between them.

Centrelink’s revenue came overwhelmingly from client departments, with a small percentage coming as direct appropriation from the government (Table 7.1). Each client (usually a policy department) negotiated a purchase price for specified services that Centrelink agreed to undertake. The BPAs detailed the services, the funding arrangements, agreed performance outcomes and related reporting mechanisms. The majority (92.4 per cent in 2003–04) of Centrelink’s business was undertaken for DFaCS, with DEWR a distant second (5.3 per cent). The other 14 Commonwealth purchasers (10 departments and four agencies), plus the states and territories, accounted for 2.3 per cent of Centrelink’s revenue.

The relationships with other agencies are summarised briefly here before turning to the main cases. As Table 7.1 indicates, these other contractual arrangements can be less stable with time: they involve purchasing services that can decline
or fluctuate (for example, with DoHA) or even stop once the task has been completed (for example, with DAFFA).

Table 7.1 Centrelink relationships by revenue, 2003–04 to 2006–07

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<tr>
<td>Family and Community Services</td>
<td>1 951 091</td>
<td>2 005 272</td>
<td>2 017 321</td>
<td>2 016 456</td>
</tr>
<tr>
<td>Employment and Workplace Relations</td>
<td>111 800</td>
<td>106 000</td>
<td>106 000</td>
<td>106,000</td>
</tr>
<tr>
<td>Education, Science and Training</td>
<td>13 543</td>
<td>13 579</td>
<td>13 732</td>
<td>13 908</td>
</tr>
<tr>
<td>Health and Ageing</td>
<td>8 229</td>
<td>6 351</td>
<td>6 059</td>
<td>5 386</td>
</tr>
<tr>
<td>Agriculture, Fisheries and Forestry</td>
<td>8 887</td>
<td>1 993</td>
<td>326</td>
<td>426</td>
</tr>
<tr>
<td>Subtotal (service delivery)</td>
<td>2 093 550</td>
<td>2 133 195</td>
<td>2 143 438</td>
<td>2 142 409</td>
</tr>
<tr>
<td>Revenue from other sources*</td>
<td>18 681</td>
<td>15 592</td>
<td>14 168</td>
<td>14 233</td>
</tr>
<tr>
<td>Total</td>
<td>2 112 231</td>
<td>2 148 787</td>
<td>2 157 606</td>
<td>2 156 409</td>
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*Includes directly appropriated amounts and anticipated revenue from new business outside existing partnerships and other agreements with client agencies.

Source: DFaCS 2003:263.

For example, Centrelink was responsible for the day-to-day administration of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme. It made all payments of financial assistance under those schemes, while the Department of Transport and Regional Services (DoTRS) retained all responsibility for policy matters. The Minister for Transport and Regional Services, John Anderson, wrote to Minister Anthony as input to the Centrelink Review saying that DoTRS and Centrelink were generally in day-to-day contact on a range of administrative and policy issues. DoTRS received monthly performance reports from Centrelink. Although, at that time, the service arrangement had been in ‘full operation’ for only a short period, DoTRS was ‘very pleased with the performance of Centrelink’.

Department of Family and Community Services

The DSS/DFaCS purchased most Centrelink services and only this department could buy these same services. In fact, most of the services DFaCS purchased or funded were bought from Centrelink. While there was nothing in the legislation requiring Centrelink to undertake work for the DSS/DFaCS, there was a clear expectation that it would continue to do so and there was a provision in the legislation that allowed the minister to instruct it to do so.

Formal agreements under the CSDA Act needed to be put in place to authorise Centrelink to undertake work for the DSS. The first agreement between the DSS and Centrelink, the Strategic Partnership Agreement (SPA), was drafted quickly by a small team. The document, a 10-page ‘core agreement’ with some 84 pages of various ‘protocols’ and ‘memoranda’, largely set out what the DSS formally required and what Centrelink would deliver during 1997–98. The SPA also provided for committees at operational and senior management levels to facilitate
the two organisations in conducting their business. The document was succinct compared with later such agreements.

At the end of the first year, a new agreement was signed with the name Business Partnership Agreement 1998–2001, reflecting the view of the relationship of the new departmental secretary, Dr David Rosalky. This was intended as a three-year agreement, with an expectation that some modification would be undertaken if necessary at the end of each year. The level of specification, however, had now expanded substantially and the agreements grew accordingly (for details, see Rowlands 2003).

A major point to bear in mind when analysing the DSS/DFaCS–Centrelink relationship was the near monopoly–monopsony arrangement. Equally important was that even though there was an influx of staff to Centrelink initially from other organisations and an attempt by Centrelink to define itself as ‘not the DSS’, the two organisations were once one. That had a strong practical effect on continuing relationships at a personal level between officers who formerly worked together and at an aggregate level between organisational units and the organisations as a whole. The main dimensions are examined later in this chapter.

Department of Employment and Workplace Relations

Centrelink’s second most important purchaser–provider relationship was with DEWR, later renamed the Department of Employment, Workplace Relations and Small Business (DEWRSB). The department took a different stance to DFaCS in its relationship with Centrelink, especially on Centrelink’s performance. DEWRSB’s key objective in 1999 was building an effective partnership between purchaser and provider. Centrelink was acknowledged as being committed to this approach but it was difficult to achieve with the provider having a monopoly over most services delivered and when issues existed over the pricing of these services.

The position of DEWR was argued to have been different to that of DFaCS because about $1 billion worth of services were bought in the market based on service delivery arrangements that were almost entirely outsourced. Employment services were being delivered through 200 providers in the Job Network and services were also bought from a network of community work coordinators and providers for the delivery of Work for the Dole projects, the Return to Work Program and community sport programs.

In each case, these arrangements were a product of a competitive tender that was mostly price competitive. There was therefore a competitive market, in which the price of services was known and contracts allowed people and organisations to lose or gain business according to their performance against standards. The contrast with the Centrelink situation was that the department
was negotiating with a government monopoly without generally having an alternative (Senior departmental official).

From DEWRSB’s point of view, the main obstacle to a viable relationship with Centrelink was differences about the costs of services being purchased. The department regarded Centrelink’s role as crucial to the implementation of the government’s mutual obligation policy for the unemployed. In 1999, at the time of an official but private review of Centrelink, there was concern about how policy might founder on the quality of the management. The DEWRSB position appeared to question Centrelink’s commitment and effectiveness in implementing its services.

Centrelink’s interaction with the unemployed had been (as with the DSS before it) more demanding than that with other recipients of income support. Recipients in the pensioner and family payment categories tended to interact only at the time they lodged a claim for a payment and at various review points, perhaps a year or so apart. In contrast, the number of personal interactions with job seekers was much higher. As well, the prominence of the mutual obligation policy in public debate helped increase the relative importance of the services being purchased by DEWRSB in comparison with those purchased by DFaCS.

DEWRSB’s experience with the Job Network and purchaser–provider arrangements through managing labour market programs led it to require strong, explicit contestability for specific components of service delivery, and to moving the Centrelink operation towards a contestable environment. It was apparent to DEWRSB, however, that Centrelink did not fully appreciate the implications of a purchaser-provider approach in terms of being responsive to the purchaser and consistent in service delivery (Rowlands 2002). This produced frustration when the department had contractual obligations with its Job Network service providers.

One difficulty in this relationship, which was also common to that between the DSS and DEETYA, was uncertainty about who was the client. For the DSS, the unemployed person was the client, while DEETYA related to industry. This problem had been identified by Moran (1996:19) in vocational education and training: ‘An emphasis on competition within vocation[al] education and training has meant that the definition of “the client” has been a difficult and controversial point to resolve…at least as far as governments are concerned, the principal client is industry.’ The DEWRSB view was influenced partly by the perspective of the private organisations it served. Its more robust view than DFaCS’, assuming DEWRSB to be a successor to DEETYA, could also reflect an organisation that had lost a regional network and an operational arm (ie CES) (Rowlands 2002).

DEWRSB was, however, able to cite performance information to substantiate its views. DEWRSB had retained its own computing systems—unlike DFaCS, whose main IT facilities went to the new Centrelink—and was therefore less dependent
on Centrelink for management information. In addition, DEWRSB had developed experience in working in a genuinely contestable environment—specifically with the Job Network—and was enthusiastic about seeking the competitive supply of Centrelink services. It had consciously removed work—the Community Support Program—from Centrelink and outsourced it to private providers (DEWRSB 2001). It had also arranged independent customer surveys of Centrelink performance, something DFaCS had never done. It seems likely that the more businesslike and formal approach DEWRSB took to managing its relationship with Centrelink helped the ANAO form a more positive view of the arrangements between the two organisations. The ANAO attributed this to more formal consultation between the organisations at various levels and better performance reporting and analysis (ANAO 1999b:85).

DEWR then took a more aggressive role than DFaCS in dealing with Centrelink and was suspicious of its potential monopoly position. According to Rosalky (2002:8–9), DEWR worked with central agencies, such as the Department of Prime Minister and Cabinet and DoFA to limit Centrelink’s independence.

From Centrelink’s point of view, much of the problem was that DFaCS and DEWR provided different instructions in relation to the unemployed (differences that were echoed at the ministerial level). According to Vardon (Interview), ‘They played football with my head as the ball’ because they could not reconcile the different policy positions.

Central agency: Department of Finance and Administration

DoFA did not have a direct relationship with Centrelink as it had with policy departments because Centrelink’s funding was appropriated overwhelmingly to departments which then purchased services from it. Nevertheless, DoFA’s view of Centrelink was important because as an agency it reflected and influenced the views of key ministers and therefore had a major influence on government agendas. One example of this power was its role in the annual budget process. It provided advice to ministers in cabinet’s Expenditure Review Committee on the proposals brought to it by individual ministers.

Second, DoFA had a strong role in public sector reform for many years. DoFA’s support for the creation of Centrelink was attracted by casting the arrangements in the purchaser–provider form as well as by providing an opportunity for savings in operating costs. The secretary of DoFA viewed the split as comprising ‘the effective re-engineering of DEETYA and DSS to become essentially policy departments purchasing services from other suppliers (either in the public sector or elsewhere)’ (Sedgwick 1996). There was, however, an unfinished agenda from DoFA’s point of view in terms of the full implementation of the model. Under the devolved financial management and accountability arrangements, DoFA was charged with ensuring that the government was obtaining value for money.
when purchasing services from Centrelink and it retained strong views about the agency and the nature of the institutional arrangements.

DoFA’s position was that there was a need for reform in two areas to enable Centrelink to deliver a more efficient and higher-quality service. Both of these areas were seen as significant purchase issues: the appropriateness of Centrelink’s governance arrangements and corporate form; and the financial arrangements that underpinned these structures. It was clear that DoFA did not see the 1997 arrangements as final. In particular, it was not convinced that representation of purchasers on the board of Centrelink conformed to best-practice governance arrangements. DoFA continued to see Centrelink as a business enterprise. It viewed Centrelink as an ‘income support business’ and part of an ‘income support industry’. Government ownership of Centrelink was seen as comparable with that of Employment National and Telstra and there was preference for a private sector model for delivery.

DoFA supported the position that a contestable environment and genuine purchasing of services produced improvements in quality and price reductions. Its view, however, was that Centrelink did not have genuine competitors. Departments had to use Centrelink to deliver income support services and Centrelink was legislatively required to deliver these services. The purchaser–provider model had not worked with DFaCS because it was not sufficiently at arm’s length.

From DoFA’s perspective, the crucial issue in setting a course for Centrelink’s development was how the government ultimately wanted income support to be delivered. Two broad options were envisaged. The first model was income support operations that were fully integrated into the core business of government, and represented the old DSS, the model the Howard Government had moved away from. The second was income support operations separate from government. If there was no middle position, the obvious conclusion was that stability would be achieved only by either moving back or completing the move away from government. What DoFA apparently could not accept was a hybrid. What it seemed to find particularly frustrating was that, while Centrelink was a separate agency, with a CEO appointed by a board in turn appointed by the government, it was not sufficiently distant from the government. The issue turned on the trade-off between control and efficiency. Locating operations at arm’s length was meant to facilitate improvements in efficiency and service quality through exposure to the market and best business practice at the expense of direct ministerial control.

**Relational issues**

Several types of issues have been salient, deriving from the nature of the split, the debates about funding and the costs of the arrangement.
Roles in the DFaCS–Centrelink relationship

The consultant firm Rush Social Research Agency undertook the first independent analysis of the relationship between Centrelink and its major client in early 1998. The purpose of this review was to examine the working relationship between the two organisations, particularly by focusing on the original service agreement between them, the SPA. It was based on interviews with ‘key managers’ in Centrelink and what was then still the DSS.

The consultants concluded that there was a ‘positive attitude’ attributable partly to many of those involved having formerly worked together. They reported, however, a ‘lack of clarity around the boundaries between policy and delivery’. An idea of ‘partnership’ also flowed from the two organisations having one minister and the ‘sink or swim together’ situation of the two. This needed to be taken into account along with the formal purchaser–provider arrangement. The collaboration between the two organisations was, however, failing: ‘more emphasis needs to be placed on the importance of co-organisational planning and strategic mechanisms for collaboration at executive and managerial levels’ (Rush Social Research 1998:8).

The consultants reported a host of seemingly equal and opposite complaints about communication and perceptions of roles. From Centrelink’s perspective, the DSS was not able to ‘let go’ of delivery matters that the former saw as its domain. Similarly, the DSS perceived Centrelink as ‘butting in’ on policy matters that were the domain of the DSS. While the DSS complained of slowness and the unreliability of data provided to it by Centrelink (especially management information on programs as well as on Centrelink performance in delivery), Centrelink complained of a lack of clarity in these requests and insufficient funding to meet them (Rush Social Research 1998:7–10).

The report summarised the perceived threats and fears (Table 7.2). Some of the concerns seemed to flow directly from the rhetoric of prospective contestability. This was apparent, for example, where the DSS expressed concern about the prospect of Centrelink using its DSS-supplied resources to reduce prices for other client departments. Similarly, Centrelink was concerned that if the DSS found other service delivery agents, this will be used to press Centrelink to reduce its prices. In practice, neither of these outcomes eventuated in any substantial way. DFaCS did not engage any other major service delivery agents and so much of Centrelink’s funding still came from that source that DFaCS could not be losing substantially through cross-subsidisation of other departments’ work. Both agreed that there was a need for more transparency and trust between the two organisations.
Table 7.2 The DSS and Centrelink: mutual perceptions

<table>
<thead>
<tr>
<th>The DSS thinks...</th>
<th>Centrelink thinks...</th>
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<tbody>
<tr>
<td>Centrelink will use DSS resources to facilitate discounting their services to other clients.</td>
<td>To some extent, the agreements with other departments are better elucidated than the agreement with the DSS.</td>
</tr>
<tr>
<td>They are seen as ‘tied in’ to Centrelink because currently there is a lack of other suitable service providers: ‘Centrelink think they have us over a barrel.’</td>
<td>The DSS can look elsewhere for service delivery agents and use this as ‘leverage’ against Centrelink.</td>
</tr>
<tr>
<td>The DSS feels it is losing control over delivery, which has an impact on the way it achieves its ministerial requirements.</td>
<td>The DSS does not credit Centrelink with the expertise to develop more efficient ways of delivery and won’t allow entrepreneurial activity in this.</td>
</tr>
<tr>
<td>The DSS feels that Centrelink keeps it in the dark by not providing good data, and this is because it fears being ‘judged’.</td>
<td>The DSS makes unreasonable requests for information/data that are over and above those agreed in the SPA and does not provide further funding to help allocate resources to answer its needs.</td>
</tr>
<tr>
<td>Centrelink is performing well (no disasters) but needs good data to realise the DSS’s role as a monitor of performance.</td>
<td>Centrelink feels the DSS performance indicators are inadequate, too process oriented and need to be explicit about outcomes.</td>
</tr>
<tr>
<td>Micro-policy dealing with delivery mechanisms stays with the DSS as part of its policy role.</td>
<td>DSS interference in delivery modes stretches resources to the limit.</td>
</tr>
<tr>
<td>Some areas (micro-policy) cannot be too rigidly specified: these ‘fuzzy’ areas are where partnership will be cemented.</td>
<td>The DSS needs to include Centrelink in discussions on new micro and other policies to ensure it does not request deliverables that are NOT deliverable.</td>
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There are several possible interpretations of the results (Rowlands 2003). First, they can be seen as a predictable set of attitudes emerging between the members of two organisations that have been separated in this way. Second, they can be seen as evidence of the sort referred to by Mabbett and Bolderson (1998:9) of repressed issues being brought out into the open by institutional separation. Even a rather self-congratulatory review of the DSS–Centrelink split drafted some six months after the formal separation acknowledged the following lesson: ‘frustrations and performance problems that were once contained within the original unitary organisation are exposed, gain greater visibility and can rapidly lead to inter-organisational conflict in the new environment’ (Worthington 1999:23).

During the development of the 1998–2001 BPA, the ANAO conducted an audit of the performance assessment framework specified in the agreements between the principal purchasers and Centrelink. The audit examined whether this framework provided an adequate assessment of performance. It covered the monitoring and reporting of performance; the process of developing the 1998–99 agreements; the performance information contained in the agreements, including the accuracy and reliability of the data for performance measurement; the cost of providing performance information; and the progress made by the organisations in defining and costing outputs and outcomes (ANAO 1999b). The audit was in progress as the 1998–99 agreements were being negotiated between Centrelink and the departments, which meant that the ANAO’s expectations had some influence on the new DSS–Centrelink agreement.
The ANAO was positive about the new BP A, but found that performance reports provided by Centrelink to DFaCS contained little analysis of significant variations in performance. Therefore, when the data provided were examined, the reason for under/over-performance was not given. This made it difficult for the responsible party to take action to address performance problems. The ANAO (1999b:2.15) also reported that DFaCS staff were generally satisfied with the content of the performance reports, but were dissatisfied with the level of analysis of the performance variations.

The relationship between DFaCS and Centrelink had still not yet matured (but see the next chapter). An internal audit by DFaCS of the management of the relationship reported that its staff members were unclear about what they should be regularly doing to manage the relationship. Staff primarily regarded the relationship with Centrelink as a partnership, but this view seemed to flow from the lack of discipline and sanctions comparable with those in place for other relevant purchaser–provider arrangements. A contributing factor was the lack of information available on the resources being applied to provide each service delivered by Centrelink (DFaCS 1999). At the same time, DFaCS managers were concerned with the frequency with which Centrelink counterparts responded to a request by saying that it was unfunded.

A further internal audit by DFaCS in 2001 on the BP A as the basis of the relationship found that it was too complex. Those who worked with it might not be able to grasp the elements of the agreement relevant to their responsibilities (Rowlands 2003). There were also unresolved problems for DFaCS in acquiring management information from Centrelink about programs and performance information on costs and quality.

The ANAO also audited DFaCS’ oversight of Centrelink’s performance focusing on its assessment of new age pension claims. It found that DFaCS was unable to monitor and evaluate Centrelink’s performance effectively. This was attributed to the lack of availability of accurate data from Centrelink (ANA0 2001a).

The ANAO audited not only Centrelink’s delivery of programs and payments; it audited DFaCS’ oversight of Centrelink’s performance. In its performance audit of DFaCS’ oversight of Centrelink’s assessment of new age pension claims, it examined the 1999–2000 and 2000–01 BPAs as central elements of the business framework. It found that DFaCS was unable to monitor and evaluate Centrelink’s performance effectively—a substantial deficiency in a purchaser–provider relationship. It attributed this to the lack of availability of accurate data from Centrelink (ANA0 2001a).

The Centrelink Annual Report 2000–2001 records one of its major organisational challenges as being able to add value to client services through ‘feedback on policy implementation and contributing ideas for future policy consideration’ (Centrelink 2001a:53).
Interface

The interface—the intermediate zone between policy formation and service delivery, covering program management or operational policy—has been a source of debate and at times acute disagreement. A particular concern from the Centrelink side was how to handle micro-policy and implementation, which tended to overlap.

When dividing the parts of the DSS into the two new organisations, was the optimum line of separation selected? The relationship that subsequently developed between DFaCS and Centrelink was influenced by the dividing line chosen, which, in turn, was probably affected by the restructure that took place within the DSS before Centrelink’s creation.

There is a sense in which the structure of the national office of the old DSS could be viewed as moving in increments from strategic policy through to the most practical matters of day-to-day administration. The then Social Policy Division was responsible for developing new policy at a strategic and a budget level. Moreover, it developed and controlled all advice on policy change that resulted in an item appearing in the portfolio budget. Several ‘benefits administration’ divisions ‘owned’ the administration of particular programs/payments. They took responsibility after any budget announcement for translating a policy into action, teasing out the detailed micro-policy and providing detailed instructions for legislative drafters and systems developers, providing guidance to the staff in the regional office network as to the correct policy detail on the inevitable queries that arose.

They dealt with issues that arose in the continuing administration too, such as precedents set by appeals tribunals and the like, which might need new guidance to the network or a micro-policy amendment. The Systems Division translated the detailed policy instructions into a practical, working computer system that would be the basis for regional office staff doing their daily work of assessing claims for payment and so on. Indeed, almost all regional office work was—and had been for some years—integrated into the computer system.

These divisional structures were not rigidly separate. The Social Policy Division generally tested policy options with the benefit divisions and Systems Division for ‘implementability’ and, often, for comment on the policy itself. Policy options—especially when there were minor inconsistencies or desirable small changes particularly apparent at the implementation level—would be fed in from outside the Social Policy Division. Note that the benefits divisions straddled policy, detailed administration and associated systems work.  

The DSS was reorganised in the early 1990s to incorporate the Social Policy Division and the benefits divisions into three program-oriented divisions (focusing on family policy and programs, the labour market and retirement
programs). Thus, when the time came to divide the DSS into the new DSS and Centrelink, the Systems Division, being almost wholly concerned with providing the daily working tools to the regional office network, went to Centrelink. The new program divisions, which all had new policy responsibilities, formed the core of the new DSS.

The question that arises is, had the split occurred before that earlier reorganisation, would the division between the DSS and Centrelink have been made so that the Social Policy Division provided the basis of a much smaller DSS than eventuated? The benefits divisions were as much concerned with day-to-day administration as with policy matters and could easily have been seen as belonging in the Centrelink environment. It is arguable that the ‘customer segment teams’ developed within Centrelink’s National Support Office are little more than a mirror image of those portions of the former benefits divisions that dealt with the Systems Division and the regional network.

Had the Social Policy Division formed the basis of the new and yet smaller DSS it would have been left ill equipped to purchase services from a Centrelink comprising most of the rest of the former department. There would have been very little practical, operational administrative experience and insight available to it except through consultation with Centrelink. It would have been much more subject to Centrelink’s views in preparing its policy advice (and hence, at some risk of provider capture). At a minimum, it would have been, in Kettl’s (1993) terms, not a very ‘smart buyer’ and would have had little capacity to become one. In other words, to have made a cut in a different place could have incurred fewer transaction costs but the relationship could not have been that of purchaser–provider. It might have been closer to that between the Treasury and the Australian Taxation Office, in which the former sets policy but in no sense purchases delivery services from the latter.

Because of the way the division was made between the two organisations, DFaCS had a capacity to be, and made some attempt to be, an active purchaser. It has been, at some cost, a more active superintendent of its provider because it has that capacity and expectations of future contestability in its service delivery options (albeit derived from rhetoric). The supplier’s response is (at further cost) to have structures in place to deal with that superintending and to complain about micromanagement by its purchaser.

The Centrelink position was that departments continued to micromanage what it did.

DSS should have been a true policy department, mirroring the policy departments that are overseas... Most of what they do is micro policy, or another way of saying it is micromanagement... that’s been a constant problem in the relationship ever since, because FaCS can never decide where that boundary is. (Senior Centrelink official)
A purchaser view was that there was a need to have Centrelink involvement in providing advice on the implementation challenges involved in specific policy, but it opposed a more prominent role in policy development.

Centrelink’s annual report (2001a:53) records one of its major organisational challenges as being able to add value to client services through ‘feedback on policy implementation and contributing ideas for future policy consideration’. This issue is picked up again in the section on transaction costs.

Understanding the business transacted across the organisational boundary between the DSS and Centrelink, and its costs, raises the question of how the two were divided in the first place. This issue, often discussed by DSS/DFaCS management after the split, was articulated internally with the question ‘Did the “knife” fall in the right place?’ In other words, did the choice as to where to make the cut give rise to the high transaction costs of each organisation in dealing with the other? The crucial point was not where the cut was made but what was to be the nature of the relationship between the two organisations once it had occurred.

### Funding and the price of services

A rationale of purchaser–provider relationships was to produce clarity about what was being produced at what cost. In practice, the notion of ‘output prices’ for Centrelink services consumed considerable effort over a number of years.

Each BPA contained a ‘price’ to be paid by the DSS, later DFaCS, for the outputs or services to be provided by Centrelink. Despite the increasing amount of detail set out in these agreements, however, they did not include a substantial breakdown of the elements making up this overall price: for example, identifiable prices or average costs for delivering specific benefits. Apart from a few minor exceptions, there was only one global price. Considerable effort, however, was expended over the years to achieve price clarity. Centrelink’s 1997–98 annual report indicated that work was proceeding in this direction and that a program had been established to determine the cost of services provided to client departments.

A services costing model has been developed as a baseline for introducing Activity Based Costing to the organisation. The Activity Based Costing will build on the services costing model data and framework to provide service level cost information for managers by December 1998...[and] will help attribute full service costs to activities and enable pricing of similar services to be estimated for new or enhanced business. (Centrelink 1998a:75–7)

The ANAO reported that various measures of administrative costs were not forthcoming as per client agreements (ANAO 1999b; Rowlands 2003). In late
1999, the ANAO audited Centrelink’s ‘planning and monitoring for cost effective service delivery’. That audit was hampered by difficulties Centrelink had in providing various data sets for analysis (ANAO 2000:12). It concluded that, although it had managed successfully to that point, this had drawn extensively on experienced managers’ knowledge. In future, it would need ‘ready access to more robust management information, particularly on cost, to support its managers to implement and evaluate major business initiatives and to set prices with its purchasers’ (ANAO 2000:13–14).

A ‘Cost Optimisation Project’ was established to enhance Centrelink’s approach to strategic cost management including the use of ‘activity-based costing’. Work was also undertaken to develop a new funding model because the existing ‘arrangements were out of date, complex, different for each client, create instability, encourage accountability for inputs not outputs and do not capture changes in cost drivers across all payment types’ (Centrelink 2000a:95, 96). A new funding model was expected for the 2000/01 budget and in the next round of BPAs. The 2000–01 annual report noted the beginning of the ‘development of a new funding model and an output pricing review. These two projects will…ensure greater transparency of results’, and the model was expected to be agreed with the government for the 2002/03 budget (Centrelink 2001a:171–2).

Debate about costs, however, continued to be a pervasive feature of the relationships. The Employment Minister, Tony Abbott, joined the debate about options in conjunction with DoFA, arguing for a ‘pure’ fee-for-service model for Centrelink. Three departments (DFaCS, DETYA and Abbott’s DEWRSB) together with Centrelink were reported as arguing for a two-pronged model that included core funding (Canberra Sunday Times, 25 February 2001:25). Secretary Rosalky (2002:10) observed that DFaCS had ‘viewed the state of knowledge of Centrelink’s cost structures as quite unsatisfactory, making it impossible to price outputs and therefore to make allocative decisions across outputs as priorities emerge’. According to DoFA, there was no transparency in pricing, so it was difficult to price services.

Another element absent from BPA documents was the provision of sanctions for non-performance. A great deal of effort was made with each BPA to specify the expectations of Centrelink’s performance more satisfactorily, but they included no sanctions for under-performance or non-performance. One of the consequences of there being no breakdown of Centrelink prices was that it became difficult to construct appropriate sanctions for, as an example, the failure to deliver a specific service. There was a capacity to relate funding to performance in the 2001–04 BPA but this was taken up in only a few cases.
Transaction costs of managing the relationship\(^4\)

The management of a complex ‘contractual’ relationship has direct financial costs for both parties. Substantial resources are required for the tasks of negotiating agreements, monitoring compliance and generally managing the relationship from the purchasing and providing sides.

The DFaCS *Portfolio Budget Statement* (2002: Appendix 6.3) provides a general indication of the DFaCS resources required for managing the relationship with service providers, including Centrelink. The figures under the heading of ‘Purchasing, funding and relationship management’ cover DFaCS’ costs for the purchase of Centrelink services (plus management of services provided by other providers of childcare and disability services). Rowlands (2003:178) estimated the total cost for 2002–03 was more than $107 million.

[A] reasonable estimate on the basis of staff numbers is that each of these functions accounts for half these costs. This implies that FaCS’ transaction costs in dealing with Centrelink are around $50 million a year. It is reasonable to presume that there is a counterpart cost on Centrelink’s side of the relationship. (Rowlands 2003:178)

If this calculation is accepted, Rowlands (2003) asks why the transaction costs between the two organisations are so high? In seeking an answer, he focuses on the concept of asset specificity as a significant influence on transaction costs. DFaCS and Centrelink have large and complex apparatus for either producing specifications for products for purchase or delivering those products.

To underscore the demands, it is useful to characterise briefly the management of social security work. The budget will include portfolio measures that will be subject to implementation processes that require significant and complementary inputs from both organisations (Rowlands 2003:181):

FaCS takes responsibility for legislative change…micro-policy development, and the preparation of detailed guidance on its interpretation. Centrelink takes responsibility for systems development, training, publicity and other final implementation tasks. Extensive consultation is required…in every implementation simply by virtue of the complexity of each change.

The consequence is that with a major implementation, daily interactions are usual between DFaCS programs and Centrelink customer segment teams. ‘The project nature…means that contingencies frequently arise requiring action…This also limits the capacity of the purchaser to specify in advance the work required and the provider to cost it accurately’ (Rowlands 2003). Ministerial priorities can also lead to regular changes in agency outputs that cannot be readily handled.
within a purchaser–provider type of relationship and which have implications for the contents of business agreements between organisations.

In the end, the question of transactions across the organisational boundaries raises the issue of the original split between the DSS and Centrelink. Rowlands (2003) concludes that it is difficult to discern a point on the continuum between policy and administration where the split could have occurred without a high level of activity across that boundary. This has implications for the boundary and the issue of choosing between the use of hierarchy or agencies as a basis for delivery of services.

### Changing client relationships: purchaser–provider to alliance

Centrelink’s relationships with its main client departments have been through purchaser–provider arrangements, governed by a form of contractual agreement with each agency. These agreements evolved from service agreements into more comprehensive documents, the BPAs, which established the scope and provided the detail of a formal purchaser–provider relationship between two organisations. The details cover the services, funding arrangements, agreed performance outcomes and related reporting mechanisms. BPAs are used to manage and review the operating and performance relationships between the partners.

For several years, these relationships were the subject of wrangling and debate. DoFA’s central agency position was that Centrelink was monopolist and did not have genuine competitors. In its view, the purchaser–provider model had not worked with DFaCS because they were not sufficiently at arm’s length. There was a lack of transparency in Centrelink pricing, so it was difficult for DFaCS to understand the pricing of particular services being charged by Centrelink. ‘The budget just flows through FaCS, more or less as a lump sum grant, to Centrelink’ (Senior DoFA official). The interface between policy formation and service delivery covering program management or operational policy continued to be a source of disagreement.

As previously mentioned, Centrelink believed that departments micromanaged its activities. As one senior Centrelink official observed, ‘[T]here’s a fine line between micro-policy and implementation. So there’s a nice grey area there where we need to sort it out together.’ In contrast with the policy department in other systems that concentrated on macro-policy, the client department focused mainly on micro-policy or, in practice, micromanagement. Because DFaCS could not locate the boundary, micro-policy led it into micromanagement.

Looking across the life of Centrelink, the tensions in the relationships were significant in its formative years. The rhetoric from an early stage was couched in terms of partnership, but the basis was defined and operated in formal purchaser–provider terms. There were, however, continuing problems arising from the competition for the middle ground and the mutual concern that both
organisations were either insufficiently engaged in each other’s primary responsibilities or too involved in their respective roles. This tension could be ‘tolerable and creative’, but was ‘destructive’ in the late 1990s. ‘The model shifted then, from pure purchaser–provider, to partnership underpinned by the elements of purchaser–provider’ (Senior departmental official).

This was not the case with the other key relationship (with DEWR), in which there had been some movement in the direction of ‘a more mature partnership, but…we’re not there, and it’s basically because of this endless argument about funding for the delivery of services, which constantly undermines that partnership arrangement’ (Senior departmental official).

The official public view about the DFaCS relationship was expressed in the BPA between DFaCS and Centrelink, which stated that the relationship had evolved over four years into ‘a dynamic, mutually beneficial association. FaCS and Centrelink are committed to the continued mutual development of the partnership…a unique arrangement, which blends elements of purchaser–provider responsibilities with elements of partnership and alliance’ (DFaCS 2001a). Even then, however, the relationship did not mature until the development of a more systematically worked through ‘alliance’.

‘Alliance 2004’ emerged from a complex project that involved inter-agency teams working at different levels on specific elements for 12 months. These elements addressed weaknesses in the previous relationship between Centrelink and DFaCS and focused on a set of frameworks designed to ‘reshape the relationship from one that largely focused on inputs and processes to one that more clearly focused on achieving Government outcomes’ (DFaCS/Centrelink 2004:3). This included the Outcomes and Outputs Framework, a joint version of the standard public service requirement, but one that made explicit each organisation’s contribution to achieving outcomes (a DFaCS responsibility); the Business Assurance Framework, providing a framework for risk-management strategies and controls; and the Centrelink Funding Model, providing a pricing structure for services, and information protocol, covering responsibilities for reporting. A new BPA incorporated these business tools and was replaced with a Business Alliance Agreement 2004–2008 (DFaCS/Centrelink 2004).

Interpretation

The redefinition of inter-agency relationships was strongly influenced by principal-agent principles. There was eventually consensus among the purchasers and the provider about the limitations of this approach. The commercial approach underlying the purchaser–provider model required an arm’s-length relationship between the two with regard to financial results. Because of Centrelink’s character and the shortage of financial data, however, the model was seen to be ‘artificial and inimical to the primary portfolio purpose. The government’s fiscal interests
are tied more closely to effective joint management of program funds than to a competitive model aimed at reducing administrative costs’ (Rosalky 2002:14).

The changing stance of central coordinating agencies was also apparent. Not so long before, DoFA perceived the relationship in formal terms and took issue with Centrelink’s location within the Family and Community Services portfolio as to whether it was a separate service agency model or a traditional departmental model. The minister was seen to appreciate the ‘big mushy-looking bucket of money…but it’s not a purchaser–provider relationship’ (Senior DoFA official).

It is now generally accepted that this type of relationship is problematic if the two parties are located within the same portfolio. This position had been endorsed by the Uhrig Review of Corporate Governance (2003:47), which failed to ‘identify a net benefit’ and favoured direct ministerial accountability.

The organisation’s smart practices produced more effective relations based on the value-chain conception of responsibilities and a more integrated alliance approach to the most important relationship, that between DFaCS and Centrelink. A group that included clients and the key central agency, DoFA, subsequently produced a new funding model. Broader issues about the substantial transaction costs arising from the original structure (that is, those of purchaser and provider in managing a complex contractual relationship) are not explicitly factored in because the separation remains a given, but there are efficiencies from reducing micromanagement, duplication and the competitive aspects of adversarial behaviour.

The conflicts between models outlined earlier derived partly from the limitations of purchaser–provider principles and their application to a purchaser and provider within the same portfolio. Once an adversarial dimension cloaked in partnership was succeeded by real collaboration, there were opportunities to confront other questions.

**Purchaser–provider**

Initially, the secretary of the DSS depicted its relationship with Centrelink as a partnership. Blunn contrasted ‘partnering’ with a purchaser–provider relationship and argued that the relationship was based on the mutual understanding of their respective roles and responsibilities, which were defined in the SPA, the ‘contract’ between the two organisations (Blunn 1997a:4; Rowlands 2003). A partnership was chosen rather than the purchaser–provider approach for the following reasons:

- a legalistic, contractual relationship on the adversarial model was negative, based on the absence of trust between the partner organisations and would not work out in the longer term…
- no contract between Commonwealth agencies could be litigated…so why pretend a legal or quasi-legal arrangement existed?
• there is very low political tolerance…for income support services to be
   disrupted for any substantial period or for Commonwealth agencies to enter
   into public conflict over delivery of government policy. We therefore needed
   a contractual framework oriented to solving problems, not assigning blame;
   and
• the basis of an effective relationship between the two organisations was the
   relationship between managers and those who had to work together across
   the organisational boundaries…Therefore the development of a
   complementary corporate culture in both partner organisations was seen as
   essential to the success of a functional partnership approach. (Blunn 1997a:4)

According to Rowlands (2003), these reasons appear ‘to repudiate explicitly the
purchaser–provider model at least by contrasting it to the notion of partnership.
Indeed, it focuses on…the reasons why purchaser–provider might be inappropriate
in a social security environment.’ Another interpretation is that the language of
purchaser–provider was de rigueur in the mid-1990s, although its full
implications in a formal sense were seen to be of questionable value. The
competition between the agencies, however, and concerns about control
precluded the earlier emergence of mature partnerships.

According to the Review of Corporate Governance (Uhrig 2003),
purchaser–provider arrangements were regarded as ‘a means to provide leverage
to the portfolio department to ensure the services being delivered are in line
with their requirements’. Uhrig concluded, however, that purchasers had
‘minimal leverage’ in the procuring services because of:
• The annual cost of the services is established and paid for in advance of the
  services being delivered.
• There are no alternative providers for the majority of services.
• The service providers are, as yet, not able to identify accurately the
  transaction costs for the services being delivered. This reduces the purchasing
  department’s ability to link the price paid to the volume delivered and to
develop benchmarks. (Uhrig 2003:46)

Furthermore:
• The incentives for the major purchasing agencies to be good purchasers are
diminished by the fact that they do not benefit from any price reduction.
• Any attempt by the purchasers to withhold money based on under-delivery
  of services will result in greater risk to the purchasing department in services
  not being delivered adequately, undermining the achievement of the
  outcomes for which the purchasing department is responsible…
• There are considerable resources being consumed in managing the purchasing
  agreement with very little or no benefit. As the large majority of services
  being delivered by a service delivery authority is within the purchasing
department’s portfolio, greater leverage over price and quality of services being delivered could be achieved through direct accountability of the authority to the Minister. (Uhrig 2003:47)

The review found it was unable ‘to identify a net benefit in the use of purchaser/provider arrangements for services being delivered within a portfolio due to the lack of purchasing power of the portfolio department’ (Uhrig 2003:47).

**Conclusion**

The DSS and Centrelink understood the challenges of new relationships at the outset, yet despite the recognition of the need for partnerships and work on cultivating the relationship, weaknesses surfaced and dominated for some time. They derived mainly from the purchaser–provider and financial arrangements.

The debates about the roles of the purchasing department and the provider agency derived from the combinations of models that could be discerned in Centrelink’s organisational imperatives. In particular, there were the different interpretations about the relative importance of managerial dimensions as expressed through purchaser–provider principles and partnerships.

The central relationship between Centrelink and DFaCS

has been perpetually hampered by an uncertainty as to its nature. There is a tension between the collegiate partnership sought by managers and the formalism of purchaser–provider. The former posits mutual objectives and enjoins trust and co-operation; the latter encourages formalism and caution as to the other’s motives. This tension has flowed through to relationships at all levels in the two organisations. (Rowlands 2003)

The formal legislative framework produced detailed specification of DFaCS’ requirements that increased with time, leading to claims of micromanagement by Centrelink. In this environment, it can be difficult to handle contingencies that require resources to be moved between tasks in the short term unless effective relationships exist between managers (Rowlands 2003).

At the same time, purchaser–provider relationships remained unrealised through the appropriate performance information including output prices. There were also difficulties in other portfolios with purchasing agreements at this time, a notable example being the Department of Immigration and Multicultural Affairs (Tucker 2008).

The models differentiated earlier continued to contribute to the ambiguity in Centrelink’s environment. There were attempts to mitigate the environmental ambiguity through relegation of two of them and some reworking of the features of others. The emphasis on partnerships facilitated more productive relationships, but the structural features of the original design of Centrelink meant that tensions
remained and that much energy had to be channelled into working through the creative options.

ENDNOTES

1 The section draws on Rowlands (2003).
2 Brown and Rowlands (1995) discuss program implementation under these arrangements.
3 The historical aspects draw on Rowlands’ (2003) more detailed survey.
5 BPAs take the form of a memorandum of understanding because the Commonwealth cannot enter into a contract with itself in which the purchaser and the provider are its agencies.
6 This was not the case with the other key relationship, that with DEWR, in which there had been some movement in the direction of ‘a more mature partnership’, but this progress continued to be retarded because of ‘endless argument about funding for the delivery of services, which constantly undermines that partnership arrangement’ (Senior departmental official).