



Government of **Western Australia**  
Department of **Treasury**

# **Financial Guidelines for Government Agencies – Commissioning Community Services**

**October 2024**

This document was prepared by the Department of Treasury (WA Treasury) on the traditional Country of the Wadjuk people of the Noongar Nation.

WA Treasury respectfully acknowledges the Traditional Custodians of Country throughout Western Australia and their continuing connection to Country, Culture and Community.

We pay our respects to all members of Western Australia's Aboriginal communities and their cultures and to Elders past and present.


We acknowledge and pay tribute to the strength and stewardship of Aboriginal people in sustaining the world's oldest living culture and value the contribution Aboriginal people make to Western Australia's communities and economy.

We recognise our responsibility as an organisation to work with Aboriginal people, families, communities, and organisations to make a difference and to deliver improved economic, social and cultural outcomes for Aboriginal people.

Further information may be obtained by emailing [CAFAC@treasury.wa.gov.au](mailto:CAFAC@treasury.wa.gov.au)

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# 1. Introduction

The [State Commissioning Strategy for Community Services](#) was released in 2022, which aims to change the way Government delivers Community Services in Western Australia.

Commissioning is a cyclical process of planning, purchasing, managing, monitoring and evaluating services so that they:

- meet the needs of users at the right time and in the right place;
- are sustainable and delivered by organisations with the right staff and systems in place;
- are evidence based with robust quality standards; and
- are culturally safe and tailored to local community needs.

The [Delivering Community Services in Partnership Policy](#) defines Community Services as those that provide support to sustain and nurture the functioning of individuals and groups, to address physical, social, and economic disadvantage, maximise their potential, and to enhance community well-being.

Types of Community Services include (but are not limited to):

- services that contribute to the building of capacity within the community to respond positively to an identified need;
- services required to address disadvantage for which a collaborative approach is required with the community;
- services that encourage the involvement of volunteers, increased business or community support, or the personal empowerment of recipients of the service; or
- services that contribute to the ability of people to live and participate in the community.

## 1.1 Background

Deliverables under Priority 4 of the [State Commissioning Strategy for Community Services](#) (supporting a sustainable system for commissioning community services) include the development of Financial Guidelines for Government Agencies – Commissioning Community Services (the Financial Guidelines), and the implementation of a central Government Agency financial assurance process to oversee and assure selected commissioning processes.

Both the Financial Guidelines and central Government Agency financial assurance process are intended to assist Government Agencies throughout the various stages of the commissioning cycle, shown in Figure 1 below.

Figure 1: The commissioning cycle



## 1.2 Purpose

The Financial Guidelines:

- set out Financial Management Principles to assist Government Agencies in the commissioning of Community Services (Section 2);
- clarify the authorising environment in which Government Agencies operate including relevant legislation, regulation, policy and guidance (Section 3 and Appendix 2);
- set out relevant roles and responsibilities for Government Agencies who undertake Community Services commissioning (Section 4); and
- provide guidance to Government Agencies on the costing and benchmarking of Community Services (Sections 5 and 6).

Key terms are outlined in Appendix 1. The Financial Guidelines should be read in conjunction with all relevant legislation, regulation and policy outlined in Section 2 and Appendix 2.

Guidance on technical elements (for example, costing and benchmarking) is indicative only and should be applied accordingly. No single methodology can be applied universally. Substantial tailoring will be required to suit the context of the commissioning process, drawing on an appropriate mix of expertise.

Costing and benchmarking processes, particularly during early planning and scoping, can only ever be estimates and should be managed accordingly. Where material increases to approved funding levels are proposed during procurement activities, it is essential that Government Agencies seek Government approval before entering into contractual arrangements.

## 2. Financial Management Principles

The [Financial Management Act 2006](#) (the FMA) provides for the management, administration and reporting of the public finances of the State. Treasurer's Instructions address operational issues such as the control of public money, and general accounting and reporting requirements that must be observed by Government Agencies that are subject to the FMA.

The following Financial Management Principles outline specific focus areas for Government Agencies in the commissioning of Community Services. Appendix 2 brings together the key legislation, regulation, policy and guidance that should be considered throughout commissioning processes.

### Principle 1 – Accountability and Transparency

#### Address key touchpoints with Government

Section 3.4 outlines the expectation for Government Agencies to test proposals with Government at key commissioning stages, including during early planning and scoping.

#### Address the Aboriginal Procurement Policy

The [Aboriginal Procurement Policy](#) mandates progressive targets for the award of contracts to Aboriginal businesses by Western Australian Government agencies.

This policy also outlines Aboriginal participation requirements that apply to suppliers on certain government contracts, which will need to meet an Aboriginal employment target or an Aboriginal business subcontracting target.

#### Align to the Aboriginal Empowerment Strategy

The [Aboriginal Empowerment Strategy](#) outlines goals, principles and actions to consider in the commissioning of Community Services. In the context of the Financial Guidelines, this includes the need to evaluate initiatives over realistic timeframes to show whether investment and services are working.

#### Comply with Agency Obligations

Section F of the [Western Australian Procurement Rules](#) lists the Agency Obligations that apply to all Government Agencies and all types of procurements. This includes maintaining a Delegation and Authorisation Register, and Contracts Register.



## Use Tenders WA

The [Western Australian Procurement Rules](#) (D3, D8.1, and E3.1) sets out requirements for the use of Tenders WA including approaching the market, publishing contract details, and publishing updated contract management information.

## Apply the Indexation Policy for the Non-Government Human Services Sector (the NGHSS Policy)

The [NGHSS Policy](#) provides for transparency and consistency in the level of indexation applied to prices in contracting arrangements under the [Delivering Community Services in Partnership Policy](#).

Note that indexation does not typically apply to grants, which are one-off payments for a discrete period. It's therefore important that the cost of NGHSS indexation is factored in when considering converting a grant to a Community Services agreement.

## Principle 2 – Sound Financial Governance

### Achieve value for money

Section A of the [Western Australian Procurement Rules](#) requires Government Agencies to seek the best value for money outcome for procurements with regard to Government's social, economic and environmental priorities, cost, and relevant non-cost factors.

The [Achieve Value for Money Guideline](#) assists Government Agencies in making value for money decisions.

The [Western Australian Social Procurement Framework](#) contextualises value for money in terms of social procurement.

### Draw on appropriate expertise when evaluating offers

The [Evaluation of Offers Guideline](#) includes information on evaluation panels, which must include an appropriate mix of skills and experience relevant to the nature of the purchase.

In the context of Community Services procurement, consideration should be given to including a mix of service/program delivery expertise, procurement/contracting expertise and financial management expertise on evaluation panels.

## Principle 3 – Financial Sustainability

### Ensure approved budgets are in place

Treasurer’s Guidance 6 (Section 2 – Supplementation of Appropriation) includes guidance on obtaining new and additional funding during a financial year. Funding requests should be informed by robust costing and benchmarking (refer to Sections 5 and 6).

Government Agencies are to avoid commencing procurement processes, undertaking negotiations, or entering into contractual agreements for Community Services until funding is approved by Government. Where a possible need for additional funding is identified, Government Agencies should engage with Government on an early basis to test key parameters and options (refer to Section 3.4).

### Align to the Agency’s Commissioning Plan

The State Commissioning Strategy for Community Services Implementation Plan outlines the requirement for the development of Agency Commissioning Plans. Commissioning activities should be consistent with Agency Commissioning Plans, which include a focus on the sustainability of Community Services.

### Apply the Delivering Community Services in Partnership Policy

The Delivering Community Services in Partnership Policy applies to all Community Services procurements and must be read in conjunction with the Western Australian Procurement Rules.

Under the Delivering Community Services in Partnership Policy, there are significant differences in how Community Services are procured when compared to other types of goods and services. For example, Community Services agreements should be structured with minimum five-year initial terms, whereas contract terms for other types of procurements should not exceed five years.

## Principle 4 – Risk Management

### Implement appropriate risk management protocols

Treasurer’s Instruction 4 (Risk Management and Internal Control) describes relevant requirements including obligations of Accountable Authorities, Chief Financial Officers, and senior management.

## Manage procurement risk

Government Agencies must establish processes to identify, analyse, allocate and manage risk when conducting procurement activities, commensurate with the scale, scope and risk of the procurement (refer to the [Western Australian Procurement Rules, Section C2.6](#)).

Government Agencies should apply their existing risk management frameworks when identifying and managing high-value, high-risk commissioning processes.

## Principle 5 – Internal Control

### Plan procurements effectively

Effective procurement planning is vital to ensure value for money is achieved and makes it easier for suppliers to do business with Government once an appropriate purchasing strategy has been identified.

Part C of the [Western Australian Procurement Rules](#) outlines requirements for procurement planning.

[Procurement Planning Guidelines](#) are available to assist Government Agencies when buying Community Services.

### Manage contracts effectively

Rule E1 of the [Western Australian Procurement Rules](#) requires that contract management/project management plans must be developed for all procurements valued at \$5 million and above.

[Contract Management Guidelines](#) are available to assist Government Agencies buying Community Services to better manage their contracts.

### Undertake Strategic Forward Procurement Planning

Rule F6 of the [Western Australian Procurement Rules](#) requires Government Agencies to undertake a Strategic Forward Procurement Planning exercise annually and provide this to the Department of Finance.

# 3. Authorising Environment

## 3.1 Government Decision-Making

Cabinet and the Expenditure Review Committee (ERC) are at the centre of Government financial and policy decision-making. The [Cabinet Handbook](#) and [ERC Handbook](#) assist Ministers and Government Agencies in Western Australia to navigate processes and prepare submissions.

**Figure 2: Key functions of Government Agencies and Ministers, Executive Government and WA Parliament**



## 3.2 State Budget Decision-Making

Formulation of the annual State Budget is a key function of ERC as a Standing Committee of Cabinet. Outside of the [State Budget process](#), ERC:

- considers all policy issues with financial impacts;
- monitors the delivery of Government commitments and other matters with a major financial and/or economic impact; and
- recommends a course of action to Cabinet on relevant issues.

The Treasurer is the Chair of ERC:

- the Department of Treasury provides ERC with economic and financial policy advice;
- all Ministerial submissions with financial implications are considered by ERC; and
- Government Agencies are accountable for managing expenses within limits approved by ERC.

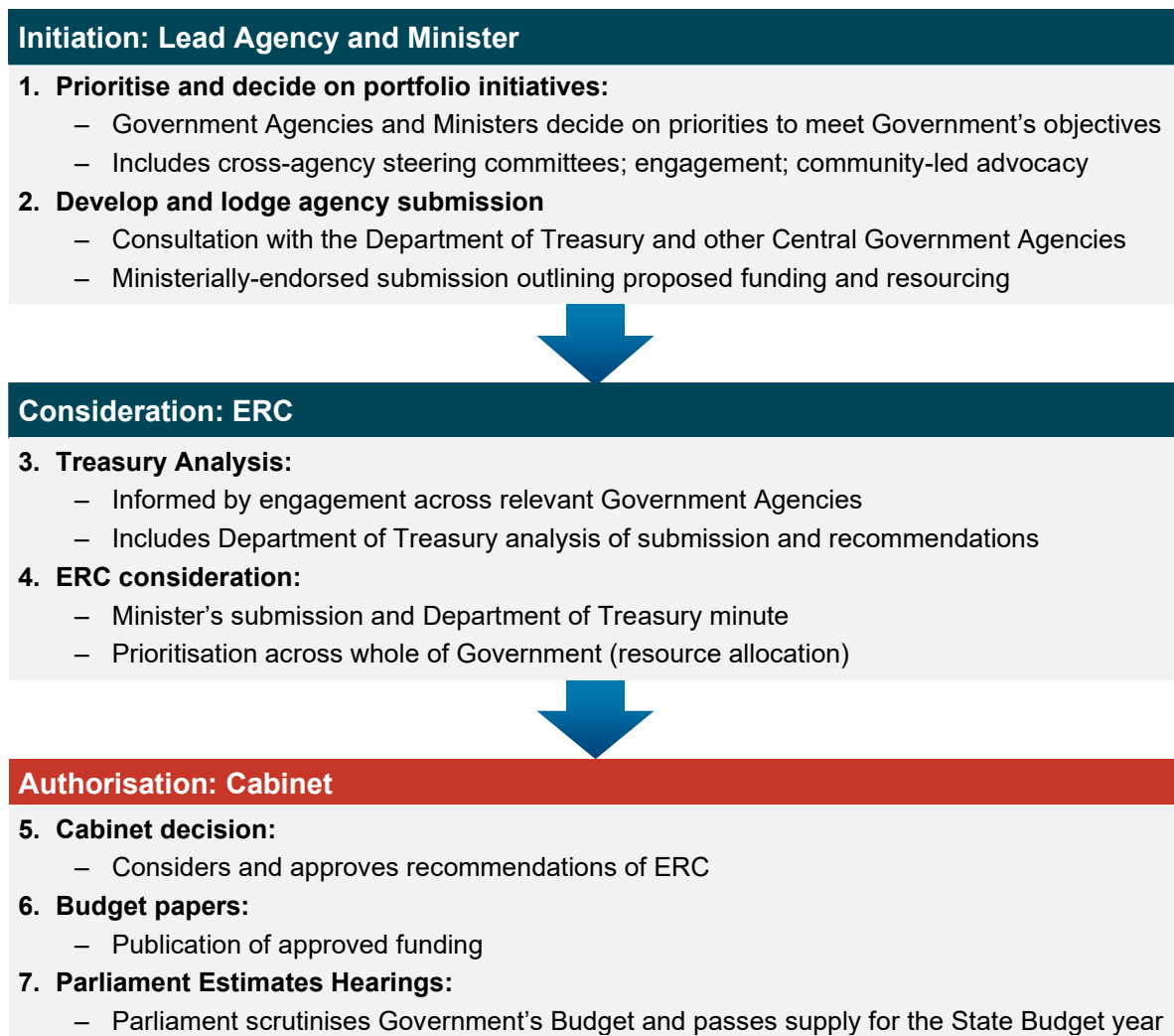
Cabinet provides final approval of all ERC recommendations.

## 3.3 State Budget Process

Government Agency commissioning processes must align with the [State Budget process](#). Key steps and typical timeframes are outlined on the following page.

### Key Steps

Figure 3. Key steps in the State Budget process

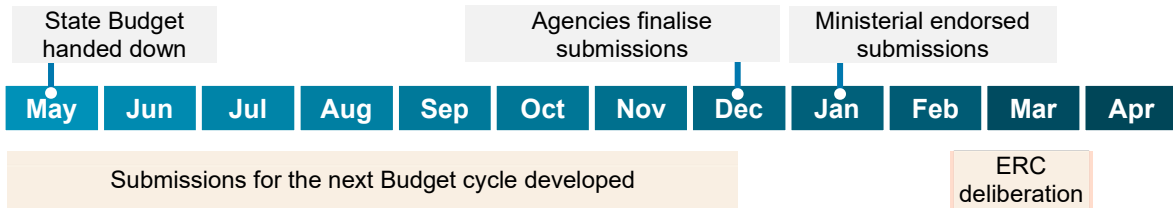


### Timing

Timing is of critical importance in the State Budget process and requires substantial forward-planning by Government Agencies to allow for rigorous commissioning processes. For example, early planning and scoping of Community Services should be undertaken at least one to two Budget cycles ahead of a possible State Budget submission (i.e. one to two years in advance). This timeframe applies equally to the commissioning of new Community Services, and re-commissioning of existing Community Services.

Some commissioning activities (for example, time-sensitive issues) will require case-by-case consideration. The timing of a typical State Budget cycle is outlined below.

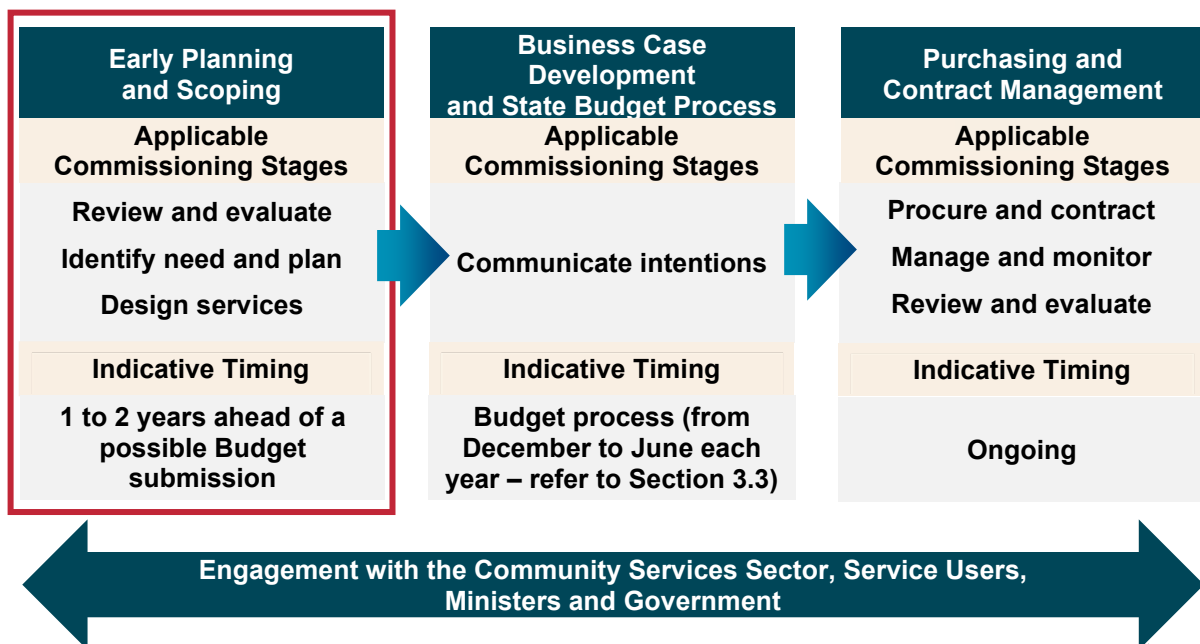
**Figure 4. Typical State Budget process**



### 3.4 Key Touchpoints with Government

Government Agencies are expected to test proposals with Government at key commissioning stages, including during early planning and scoping. As part of this, it's important that key parameters and options for upcoming proposals are tested with Government (e.g. ERC submission for endorsement) well in advance of a Budget submission (i.e. one to two years ahead). These key touchpoints are outlined in below.

**Figure 5: Key touchpoints with Government in the commissioning of Community Services**



Some commissioning activities (for example, time-sensitive issues) will require case-by-case consideration, however the above approach is applicable to both new and existing Community Services.

## 4. Assurance, Roles and Responsibilities

### 4.1 Assurance

There are two key bodies that provide assurance for high-risk, high-value Community Services commissioning processes. Government Agencies should apply their existing risk management frameworks to identify and manage high-risk, high-value commissioning activities.

#### Community Services Procurement Review Committee

The Community Services Procurement Review Committee (CSPRC) is an existing body that provides Accountable Authorities and Central Government Agencies with assurance that high-value, high-risk projects:

- deliver outcomes that align with the Delivering Community Services in Partnership Policy;
- provide value for money outcomes for all;
- apply best practice principles; and
- meet Western Australian Procurement Rules, Procurement Directions and other procurement connected Government policies.

#### Central Agency Financial Assurance Committee

The Central Agency Financial Assurance Committee (CAFAC) is a new body that:

- identifies and tests high-value, high-risk commissioning activities against relevant financial policies and guidance on a targeted basis;
- engages with Government Agencies throughout relevant commissioning processes, including early testing of key parameters and options for proposals;
- provides timely, consolidated advice to Government Agencies and relevant governance bodies to build maturity and improve the quality of financial proposals across the commissioning cycle including planning, submissions, procurement and performance (for example, facilitating information sharing across the public sector); and
- provides timely, consolidated financial advice to Government on targeted commissioning activities across Government.

Government Agencies will be engaged directly when a commissioning process is referred to CAFAC, which may occur directly through the Government Agency, CSPRC, or Government.

Information will be shared between the above committees as required, and CAFAC will report issues to Government on behalf of CSPRC as required.

CAFAC membership includes the Department of Treasury, Department of Finance, and Department of the Premier and Cabinet (refer to Section 4.2)

## **4.2 Roles and Responsibilities**

The roles and responsibilities of Government Agencies are outlined in Figure 6 the following page.



Figure 6. Roles and responsibilities

Activity	Commissioning Agency	Department of Treasury	Department of Finance	Department of the Premier and Cabinet	Relevant Ministerial Office	Expenditure Review Committee/ Cabinet
<b>Early Planning and Scoping (refer to Section 3.4)</b>						
Agency Commissioning Plans	Responsible; Accountable	Consulted	Consulted	Consulted	Accountable	
Needs analysis and prioritisation						
Service design and engagement (including costing and benchmarking)						
Testing of key parameters and options for upcoming proposals						Endorser
<b>Business Case Development and State Budget Submissions (refer to Section 3.4)</b>						
Business case development and testing (including costing and benchmarking)	Responsible; Accountable	Consulted	Consulted	Consulted	Consulted as required	
Budget submissions	Responsible	Consulted			Accountable	Informed
Assessment of Budget submissions and provision of advice to the Expenditure Review Committee	Consulted	Responsible; Accountable	Consulted as required	Consulted as required	Consulted as required	Informed
Decisions on Budget submissions and policy issues with financial implications	Informed	Consulted			Consulted	Approver
<b>Purchasing and Contract Management (refer to Section 3.4)</b>						
Compliance with relevant legislation/regulation/policy; Financial Management Principles	Responsible; Accountable	Oversight	Oversight		Accountable	Informed
Financial reporting (for example, actual expenditure)		Informed as required			Informed as required	Informed as required
<b>Central Agency Financial Assurance Committee (refer to Section 4.1)</b>						
Coordination of financial assurance processes	Consulted; Informed	Responsible; Accountable	Consulted	Consulted	Consulted as required	
Advice and recommendations to line agencies			Responsible; Accountable	Responsible; Accountable		Informed as required
Advice and recommendations to the Government			Consulted as required	Consulted as required		Approver
<b>Community Services Procurement Review Committee (refer to Section 4.1)</b>						
Review of procurement plans; evaluation reports; contract variations; exemptions; other procurement matters	Consulted	Consulted	Responsible; Accountable	Consulted	Consulted as required	Informed as required
Accountable Authority and Chief Financial Officer confirmation of approved funding sources	Responsible; Accountable	Informed	Informed	Informed as required	Informed as required	
Advice and recommendations to line agencies	Informed	Consulted	Responsible; Accountable	Consulted	Consulted as required	

# 5. Costing of Community Services

## 5.1 Expectations

### Apply appropriate rigour

The level of rigour applied to costing and benchmarking processes should be proportionate to the risk and value of the commissioning activity (i.e. greater rigour should be applied to the costing and benchmarking of high-value, high-risk Community Services agreements).

### Undertake costing at all applicable stages of commissioning

Government Agencies are expected to develop the best possible estimates of Community Services costs at all applicable stages of commissioning (refer to Figure 1) including during:

- **early planning and scoping** – informed by needs analysis and prioritisation, to allow for early testing of key parameters and options for upcoming proposals with Government (i.e. 1 to 2 years ahead of a possible Budget submission);
- **business case development and the State Budget process** – to ensure that business cases and funding requests reflect the best possible estimate of costs that will be incurred through procurement; and
- **purchasing and contract management** – including testing of procurement plans at or above \$5 million through the [Community Services Procurement Review Committee](#).

Due to the nature of outcomes-based contracting under the [Delivering Community Services in Partnership Policy](#), there may be circumstances where offers do not reflect the estimated cost (for example, due to proposed alternative service delivery models). This may in some cases require Government to consider funding levels during procurement processes. In line with the Financial Sustainability principle outlined in Section 2, Government Agencies must ensure that approved budgets are in place before committing Government.

### Understand the service model

A detailed understanding of the current or proposed service delivery model is essential for accurate costing. As part of this, it's important to analyse:

- the services being provided, who is providing them and the location they are being provided;
- the resources and processes involved in delivering the service;
- who is receiving the services, including volume and cohort characteristics;

- the typical intensity of the service (for example, how long does a client stay in a program; how many service hours are provided to clients); and
- any direct payments provided to, or received from, service recipients (for example, rent paid for housing).

Program logic maps are a useful tool for depicting and analysing service models and are outlined in more detail in the Department of Treasury's [Program Evaluation Guide](#).

Engagement with Community Services Organisations might be required to inform service model analysis, including through processes such as co-design when commissioning or re-commissioning services.

## Use contemporary information

The [State Commissioning Strategy for Community Services](#) acknowledges that the sustainability of services has been an ongoing issue with increasing demand and limited rigour applied to contract rollovers. This means that existing procurement and contract information may not accurately reflect the true costs of service delivery. Further information may need to be gathered on current service costs through processes such as service review or market sounding.

Note that market sounding processes must be consistent with integrity, transparency and accountability policies and expectations outlined in the [Develop Business Case Guideline](#). Best practice market sounding includes engaging with the supplier base on a uniform basis as early as possible.

As a principle of the [Delivering Community Services in Partnership Policy](#), Government Agencies should be conscious of minimising any additional administrative burden placed on Community Services providers and the broader sector, where possible. In line with this, there is a need to balance any additional information requested with the value and risk of the commissioning process.

## Identify the true costs of service delivery

An overarching objective of costing is to identify the true cost of service delivery. This should include capturing all direct costs, and a reasonable proportion of indirect costs (refer to Section 5).

## Undertake benchmarking

Costings should be informed by benchmarking across comparable services where possible (refer to Section 6). Benchmarking may be an input into the costing process (for example, by determining the average cost of a full-time employee across similar services, and then using this cost as the basis for a new service model). Benchmarking can also be used to compare the total cost of service delivery across similar service models.

It is important that benchmarks are developed on a like for like basis as far as possible. The costs of delivering a Community Service can vary substantially depending on factors such as the location of service delivery and cohorts that are targeted. Refer to Sections 5 and 6 for further information.

## **Provide multiple options for decision-making**

As a general rule, multiple options relating to the scope, scale and intensity of a Community Service should be developed for consideration by Government. Each option should be fully costed and include a comparative assessment of value for money, considering both cost and non-cost factors.

Refer to the [Achieve Value for Money Guideline](#) for more information. The Department of Treasury's [Program Evaluation Guide](#) provides additional information on methods that may be useful in assessing value for money (for example, cost effectiveness analysis and cost-benefit analysis).

In developing options, it's important to provide a 'do nothing' option, supported by analysis of risks and benefits.

## **Include clear and transparent assumptions**

The assumptions used in developing cost models should be clear and transparent to allow for independent testing as required, including potential review through a Central Government Agency financial assurance process (refer to Section 4.1).

## **Escalate financial and sustainability risks**

Any material financial and sustainability risks should be escalated to the Accountable Authority and Chief Financial Officer at the earliest possible opportunity. Risks should be assessed, managed, and supported by quantified options for mitigation. Relevant Minister(s) and the Department of Treasury should be advised as required.

## **Draw on diverse expertise**

Costing and benchmarking are not just procurement and contracting exercises. The methods and techniques applied will require substantial tailoring to suit the Government Agency and service delivery context. Diverse subject matter expertise should be consulted through development including:

- service/program delivery and evaluation expertise;
- financial management and accounting expertise;
- data modelling expertise;
- industrial relations expertise; and
- procurement and contracting expertise.

Where the sourcing of external expertise (i.e. consultancy) is being considered to address capability gaps, it's important that the Department of Treasury and Department of Finance are consulted prior to commencing procurement. Capability building should be considered in the scope of works so that the Government Agency can undertake future costing and benchmarking processes internally.

## Consider funding sources and sustainability

The [State Commissioning Strategy for Community Services](#) emphasises the need for Community Services to be commissioned on a sustainable basis.

In some cases, costing and benchmarking processes may identify the possibility that the level of funding provided for a Community Service(s) is not in line with the true cost of service delivery. There may be scenarios where a Community Services Organisation is subsidising the cost of service delivery through other funding sources (for example, philanthropy). There may also be cases where there is a level of duplication in Government funding for Community Services functions across multiple contracts, or where joint funding is provided from both the State and Commonwealth.

Where existing funding levels appear to differ substantially from estimated costs, the Government Agency should gather further information on service delivery costs and funding sources through processes such as service review. The Government Agency should be able to clearly identify the proportion of the total service cost currently funded/proposed to be funded by the State versus through other sources.

If the current level of funding is confirmed to vary from the true cost of service delivery, the Government Agency should develop options for funding arrangements for consideration by Government, supported by analysis of benefits, risks and sustainability.

Note that the [Delivering Community Services in Partnership Policy](#) defines sustainability as the ability of a Community Services Organisation to continue to provide services over a long-term period, and depends on the ability of that Community Services Organisation to secure funds to meet the full cost of service delivery, attract and retain human capital, and manage operational risk. Government Agencies must purchase Community Services at a sustainable price.

## 5.2 Key Steps in Costing

The costing of Community Services involves determining:

- **direct costs**, including modelling of service demand and options relating to the scope, volume and quality of a service(s) (refer to Section 5.3); and
- **indirect costs**, including attributing a reasonable proportion of indirect costs to the particular Community Service (refer to Section 5.4).

A typical costing process is outlined below, which is illustrative only and should be tailored to suit the context of the Government Agency, Community Service and broader commissioning environment. Financial/data modelling skills and experience are essential requirements.

## Typical costing process

Step	Key considerations
<p><b>1. Gather information</b></p>	<p>Gather available information on the current/proposed service model and typical service delivery costs, including reviewing existing procurement and contract information where available.</p> <p>Note that existing funding levels may not reflect the true cost of service delivery where service agreements have been in place for an extended period of time. Processes such as market sounding or service review might be required to gather current information on service delivery costs. These activities should also consider if service volumes have risen in line with costs over time.</p> <p>A detailed understanding of the service model(s), historical context and proposed service parameters is essential to develop robust costings.</p>
<p><b>2. Analyse service model</b></p>	<p>Analyse the current/proposed service model and available costing data to identify and categorise the direct and indirect costs that will apply, including classifying these costs as fixed or variable (refer to Section 5.3).</p> <p>In undertaking service model analysis, the relationship between each service input/output and variable cost should be identified (for example, one FTE per 10 clients serviced; one vehicle per FTE employed).</p> <p>Any factors that may affect the costs of service delivery should also be clearly identified through this process (for example, increased costs of service delivery in regional areas – refer to Section 5.6).</p>
<p><b>3. Develop service options</b></p>	<p>Develop multiple options relating to the scope, volume and/or quality of the Community Service. Each option should be supported by analysis of benefits and risks.</p> <p>This process should be informed by trend analysis of historical demand, projections of future demand, needs analysis and prioritisation, and service design processes.</p> <p>The <a href="#">SAMF Business Case Guidelines</a> provides further information on strategic options analysis which can be applied in the Community Services context. A 'do nothing' option should generally be included.</p>

<p><b>4. Develop cost model</b></p>	<p>Develop a cost model for each service option identified in step three (typically in spreadsheet format).</p> <p>The cost model should clearly identify each direct and indirect cost, alongside proposed service volumes commencing with the expected base year (i.e. year one).</p> <p>The translation of historical cost data into base-year costs should include fulsome consideration of any changes in the nature and structure of direct and indirect costs that may have occurred over time.</p> <p>The <a href="#">NGHSS</a> policy provides information on the indexation of Community Services which should be applied from year two of the proposed service agreement.</p> <p>It's imperative that all assumptions and workings underpinning the cost model are clearly identified to allow for independent review. As part of this, hardcoding (i.e. removal of formulas from spreadsheets) should be avoided.</p>
<p><b>5. Compare with benchmarks</b></p>	<p>If the cost model was not informed by benchmarking of input costs, the outputs of the cost model should be compared with benchmarks (for example, by comparing the average cost per output across similar services).</p> <p>If there is a material divergence between modelled costs and benchmarked costs, further review of modelling, assumptions and data sources should be undertaken to identify any possible sources of error.</p> <p>The basis for any material divergence between modelled costs and benchmarked costs should be clearly identified and communicated at key touchpoints with Government (refer to Section 3.4)</p> <p>Refer to Section 6 for further information on benchmarking.</p>

## Types of costs

Community Services will typically include a mix of direct costs, indirect costs, fixed costs and variable costs. The relationship between the different types of costs can be shown as follows:

<b>Direct costs (Section 5.3)</b>	<b>Mostly variable</b>	<b>Little fixed</b>
<b>Indirect costs (Section 5.4)</b>	<b>Some variable</b>	<b>Some fixed</b>

The true cost of a community service includes all direct costs, and a reasonable proportion of indirect costs.

The following guidance is general in nature and requires tailoring to suit the Government Agency, Community Service and broader commissioning environment.

### 5.3 Direct Costs

Direct costs are those that can be attributed directly and unequivocally to a particular Community Service, for example service delivery staff and consumables. These costs are the easiest to identify when examining the service to be costed. Direct costs are most likely to be variable costs which can be expressed in unit terms (for example, cost per Full-Time Employee (FTE)). A detailed understanding of the service delivery model is required to identify the relationship between direct costs and activity (for example, one FTE required per ten clients serviced).

Other types of direct costs are outlined further below (for example, travel and consumables).

#### Direct staffing costs

Direct staffing costs are often the most significant direct cost involved in delivering a Community Service. Significant care and attention is required to ensure that estimates of these costs are as robust as possible. Staffing costs include wages and salaries, along with on-costs (outlined further below).

It's important that staff not directly involved in service delivery are excluded from the direct costing process (for example, management and administrative teams). These costs should be captured as part of indirect costs (refer to Section 5.4).

#### Wages and salaries

Government Agencies should ensure that wages and salaries are costed using the correct industrial award or agreement (for example, separate instruments might be in place for workers employed by Aboriginal Community Controlled Organisations). This requires a detailed understanding of the service delivery model and workforce profile. Industrial relations expertise might need to be sought as required.



Note that the [Delivering Community Services in Partnership Policy](#) requires Government Agencies to purchase Community Services at a sustainable price. In line with this, it's important to reflect the true cost of wages in costing and benchmarking processes.

### **Cost escalation in wages and salaries**

There may be cases where increases to wages or salaries for particular workers leads to cost pressures in specific Community Services contracts (for example, as a result of a decision by the Fair Work Commission). In these cases, Government Agencies can consider undertaking a service review.

Note that the [Delivering Community Services in Partnership Policy](#) requires that service reviews be undertaken at appropriate intervals, including at the reasonable request of a Community Services Organisation.

Sector-wide escalation in wages and salaries is addressed through the [Indexation Policy for the Non-Government Human Services Sector](#) (NGHSS Policy).

In line with the Financial Sustainability principle outlined in Section 2, it's essential that Government Agencies ensure that approved budget is in place before any additional funding is provided.

### **Direct staffing on-costs**

While direct wage and salary costs are relatively easy to identify, there are significant additional costs (i.e. direct staffing on-costs) incurred by Community Services Organisations through the employment of staff. Direct staffing on-costs can be significant and are commonly underestimated.

Government Agencies should develop a robust understanding of the different types of staffing on-costs that may be applicable to a particular Community Service, as these can vary significantly depending on the service model and types of workers employed.

As a starting point, estimates of direct staffing on-costs should be informed by historical procurement and contract information for similar types of Community Services. Further information gathering might be required where existing information is insufficient or dated, or where a new service model is being considered. The following factors should be considered in the modelling of on-costs:

- annual leave (including leave loading);
- costs related to motor vehicles and employee travel;
- fringe benefits tax;
- housing costs including maintenance and subsidies (for example, air conditioning and water);
- long service leave entitlements;
- overtime/shift work;
- payroll tax;

- superannuation;
- training;
- workers compensation insurance premium;
- uniforms and/or protective clothing; and/or
- any other costs directly associated with the employment of service delivery staff.

When estimating future payments for entitlements such as annual leave and long service leave, consideration should be given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the typical rate of employee departure and length of service.

### Further information on direct staffing on-costs

<b>Annual Leave</b>	The <a href="#">National Employment Standards</a> (NES) require a minimum four weeks' paid annual leave per year for full-time workers, plus an extra week for certain shift workers. It's important to confirm any additional leave entitlements (including leave loadings) through review of the appropriate industrial award or agreement.
<b>Long Service Leave</b>	Under the <a href="#">Long Service Leave Act 1958</a> , after seven years of continuous employment a full time, part time or casual employee may have an entitlement to payment for long service leave.
<b>Overtime</b>	Conditions vary across awards and industrial agreements.
<b>Shift Loading</b>	Conditions vary across awards and industrial agreements.
<b>Superannuation</b>	Refer to the <a href="#">Australian Tax Office</a> website for current information.
<b>Training</b>	All training costs should be included in staffing on-costs, except for wages and salaries paid to staff while they attend training courses (which should be captured separately within wages and salaries costings).
<b>Travel Expenses</b>	Include all relevant expenses, especially any travel allowances payable under award and/or industrial agreement provisions.
<b>Housing</b>	Where housing is provided and directly relates to the delivery of a Community Service, the cost included in the analysis should be an estimation of the net cost to the Community Service Organisation (for example, net of any rent paid by staff)

## Other direct costs

Other direct costs must be clearly and unequivocally attributed to the particular Community Service being costed. These may include:

- consumables;
- contingencies (i.e. funding for unanticipated expenditure);
- information and communications technology (for example, laptops, software and subscriptions/licences);
- lease costs (for example, vehicles);
- service-specific insurances (for example, physical and sexual abuse insurance and motor vehicle insurance);
- travel costs (for example, fuel and vehicle maintenance); and/or
- any other service-specific direct costs.

The dominance of some direct costs (particularly staffing costs) may result in those costs being used as the basis for estimating the extent of indirect costs, which are discussed in the next section.

## 5.4 Indirect Costs

Indirect costs are those that are not directly attributable to a particular Community Service. Although indirect costs can be more difficult to identify and attribute, they frequently make a significant contribution to the true cost of service delivery and should not be ignored. Indirect costs are generally fixed (i.e. these costs don't vary as service volumes change). However, indirect costs may begin to vary where there are significant changes to a service model (for example, if new capital expenditure is required to deliver an increased volume of service).

As a starting point, existing procurement and contract information should be analysed to assess the nature and quantum of any indirect costs that may apply. Where this information is insufficient, dated or otherwise unlikely to reflect the true cost of service delivery, further information should be gathered (for example, through benchmarking, market sounding or service review).

### **Examples of indirect costs (some of these may be considered direct costs depending on the service model)**

- Asset-related costs (for example, maintenance and repairs)
- Commercial leases
- Carbon footprint and environmental costs
- Communication services (for example, telephone and internet)

- Compliance with relevant State and Commonwealth legislation, regulation and policy (for example, the [\*Work Health and Safety Act 2022\*](#)).
- Data collection costs (for example, reporting on contractual obligations – noting that any funding should be commensurate with the quality and consistency of information provided)
- Depreciation and amortisation
- Financial services (for example, accounting costs)
- General insurances (for example, workers compensation; public liability; commercial property; business interruption; management liability)
- Indirect workforce (for example, executive and administrative salaries; specialist labour; contractors; consultants – including on-costs)
- ICT and records management (for example, accounting systems; customer relationship management systems)<sup>1</sup>
- Legal costs and statutory compliance
- Licences and permits
- Security and safety
- Taxation (only if paid)
- Tendering, evaluation and selection processes
- Transition costs (when changing between suppliers)

## Methods for estimating indirect costs

The Department of Treasury's [Costing and Pricing Government Services Guidelines](#) includes information on 'usage/benefit' and 'pro-rata' methods for estimating indirect costs, which can be adapted if required. However, these methods require a detailed understanding of the financial and operational structure of a Community Services Organisation, which will not generally be available to Government Agencies in costing and benchmarking processes for Community Services.

In practice, Government Agencies may need to draw on existing procurement and contract information to estimate indirect costs, along with additional information gathered through processes such as market sounding, service review and/or benchmarking as required.

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<sup>1</sup> Note that the transition towards ICT-as-a-service (e.g. annual software subscriptions) has resulted in a move away from fixed ICT costs towards a greater proportion of variable ICT costs.

## 5.5 Other Costs

There may be other costs that Government Agencies need to consider when commissioning Community Services. These costs would typically be time-limited and not embedded into Service Agreements on an ongoing basis. The key parameters of these costs (for example, quantified options, rationale and supporting assumptions) should be tested with Government at key assurance touchpoints, including during early planning and scoping (refer to Section 3.4).

### Establishment and/or capacity building costs

There may be scenarios where a Government Agency identifies a potential need to fund establishment or capacity building costs for a Community Services Organisation. For example, the [State Commissioning Strategy for Community Services](#) acknowledges that the facilitation of capacity building may be required for Aboriginal Community Controlled Organisations in certain cases.

Funding for establishment and/or capacity building should be considered on a case-by-case basis in line with Government priorities. The level of funding considered should be limited to the amount reasonable and necessary to facilitate the ramp-up of service delivery on a time-limited basis.

### Service transition costs

Additional costs may need to be factored in when transitioning Community Services between providers. For example, the [State Commissioning Strategy for Community Services](#) identifies the need to consider transitional arrangements where current service providers and Aboriginal Community Controlled Organisations move in and out of services, which may involve overlapping service provision and timeframes.

The [Contract Review and Transition Guideline](#) provides further information on contract transition.

### Contract management costs

There may be instances in which additional Government Agency resources are required for the appropriate management of contracts. Any resourcing requirements for contract management functions should be reviewed during early planning and scoping, and included in the testing of key parameters and options for upcoming proposals with Government, if required.

## 5.6 Costing Adjustments

There are a range of service design parameters that may influence the costs of delivering a Community Service, for example:

- services delivered in regional and remote areas (these services may be operating less efficiently, require higher wages to attract and retain workers, or otherwise operate in environments with higher costs of service delivery);
- services delivered to particular cohorts (for example, increased costs for services that support people with complex needs);
- smaller-scale Community Service Organisations operating at lower efficiency; and/or
- other relevant factors that may impact the cost-of-service delivery (such as a Community Service that operates 24 hours per day, seven days per week).

A clear understanding of the service model is required to identify any costing adjustments that might apply. Costing adjustments should be informed by benchmarking and/or clear and transparent assumptions to allow for testing with Government at key assurance touchpoints (refer to Section 3.4).

## 6. Benchmarking of Community Services

In the Community Services context, benchmarking is a process of measuring and comparing the costs of service delivery for similar types of services, for example across different regions and/or jurisdictions.

Benchmarking may be used to inform an assessment of value for money. However, assessments of value for money should extend beyond benchmarking to consider all relevant cost and non-cost factors (see [Achieve Value for Money Guideline](#) for further information).

Benchmarking may also be an input into the costing process (for example, by using the average cost of a worker across similar services to estimate workforce costs in a new service model).

An example of an information gathering and benchmarking process is included in Appendix 3.

### 6.1 Key Considerations

#### Activity data

It's essential that data on activity (i.e. service volumes) is gathered alongside data on costs for each Community Service being benchmarked.

#### Comparability

Benchmarking of Community Services should be applied on a like-for-like basis, as far as possible. This requires a detailed understanding of the service model, and consideration of any relevant cost adjustment factors that might need to be factored in (refer to Section 5.6). As part of this, it's important that benchmarked costs are compared within the same financial year if possible, or converted into present-day terms (i.e. adjusted for indexation).

#### Robustness

The level of rigour and detail applied to benchmarking should be proportionate with the cost and risk associated with the commissioning process.

If insufficient information is available to develop robust and comparable benchmarks, further information should be gathered through processes such as market sounding or service review (commensurate with risk and value).

## Government priorities

There may be cases where additional costs are warranted to deliver on Government priorities (for example, by facilitating culturally appropriate service delivery). This should be factored into benchmarking processes as required.

## Clear and transparent assumptions

It's important to detail the assumptions that underpin benchmarks to allow for independent review if required.

## Tailoring

The guidance on benchmarking in this document is illustrative only and requires substantial tailoring to suit the context of the Government Agency, Community Service and broader commissioning environment. Diverse expertise is required to apply these methods, including financial/data modelling capability.

## 6.2 Unit Cost Benchmarking

Unit costs can be expressed in many different ways, for example 'hours of counselling', 'number of care days', 'number of families serviced', or 'number of programs delivered'.

$$\text{Unit Cost} = \frac{\text{Total Cost}}{\text{Total Output}}$$

Unit cost benchmarking is better suited to service models with a higher proportion of variable costs (for example, demand-driven programs). Caution should be applied when comparing the unit costs of larger-scale providers with those operating at limited efficiency (for example, service providers in regional and remote areas).

In line with the outcomes-based nature of the [Delivering Community Services in Partnership Policy](#), unit cost benchmarking can also be applied to outcomes-based Community Services agreements (for example, benchmarking of cost per outcome delivered).

This method requires:

- robust historical data on contracts for similar service models (including activity data) and/or further information gathering on current service costs (refer to Section 5);
- development of separate benchmarks where material variances in service characteristics impact the cost of service delivery (refer to Section 5.6 for examples of cost adjustment factors); and
- an understanding of current market conditions (for example, labour costs and accommodation costs may be higher or lower than the long-run average at any given point in time).



## Indicative steps

1. **Gather information** – Including data on costs and service volumes across existing/comparable Community Services (including information from other states and territories, if available).
2. **Analyse service model** – Including identifying the key service categories to be costed (for example, separate unit costings for each region and target cohort).
3. **Analyse trends** – Ensuring that data gathered over different financial years is adjusted so that benchmarks are compared within the same financial year (for example, by applying NGHSS indexation).
4. **Develop unit costings** – Including determining the average, minimum and maximum cost per service output for each service category, over the years of available data.
5. **Compare results** – Including comparing benchmarked unit costs with actual or proposed costs of service delivery to inform an assessment of value for money (noting that assessments of value for money are much broader than benchmarking – see [Achieve Value for Money Guideline](#)).

## 6.3 Total Contract Value Benchmarking

Total contract value benchmarking may be more appropriate for service models with a high proportion of fixed costs (for example, remote service delivery). Caution is required when applying total contract value benchmarking, as costs may vary significantly depending on location, service volumes, service complexity and any other relevant factors.

This method requires:

- robust historical data on contracts for similar service models and/or further information gathering on current service delivery costs (refer to Section 5);
- development of separate benchmarks where variances in service characteristics impact the cost of service delivery (refer to Section 5.6 for examples of cost adjustment factors); and
- an understanding of current market conditions (for example, current labour costs and accommodation costs may not be in line with longer-term trends).

## Indicative steps

1. **Gather information** – Including data on costs across existing/comparable Community Services (including information from other states and territories, if available).
2. **Analyse service model** – Including the key service categories to be costed (for example, separate benchmarks for each region and target cohort).
3. **Analyse trends** – Ensuring that data gathered over different financial years is adjusted so that benchmarks are compared within the same financial year (for example, by applying NGHSS indexation).
4. **Develop benchmarks** – Including determining the average, minimum and maximum total contract cost for each service category, over the years of available data.

5. **Compare results** – Including comparing benchmarked total contract costs with actual or proposed costs of service delivery to inform an assessment of value for money (noting that assessments of value for money are much broader than benchmarking – see Achieve Value for Money Guideline).

## 6.4 Comparative Benchmarking

There may be cases where comparisons with benchmarked costs of Government services are required, for example:

- where insufficient information is available to apply other benchmarking methods; and/or
- to identify avoided costs to Government through the delivery of services by Community Services Organisations.

Proxies might need to be identified to apply comparative cost benchmarking. Caution is required when applying this benchmarking method as Government-delivered services may operate through different cost structures and may not be readily comparable.

Related information is available in the Department of Treasury's [Costing and Pricing Government Services Guidelines](#).

# Appendix 1

## Key Terms

Accountable Authority	The Accountable Authority, of a Government Agency, means the person or body determined under Section 54, 55 or 56 of the <u><a href="#">Financial Management Act 2006</a></u> , as the case requires.
Agency Obligations	Processes, procedures and obligations Government Agencies must comply with, as defined under Section F of the Western Australian Procurement Rules
Chief Financial Officer	As defined under the <u><a href="#">Financial Management Act 2006</a></u> .
Commissioning	As defined under the <u><a href="#">State Commissioning Strategy for Community Services</a></u> .
Community Services	As defined under the <u><a href="#">Delivering Community Services in Partnership Policy</a></u> .
Financial Guidelines	Financial Guidelines for Government Agencies – Commissioning Community Services (this document)
Government	The State Government of Western Australia
Government Agency	State Government Agencies as defined under Section 5 of the <u><a href="#">Procurement Act 2020</a></u> .
Officer	An Officer means a person who is employed or engaged for the purposes of a Government Agency, whether as a public service officer under the <u><a href="#">Public Sector Management Act 1994</a></u> , under a contract for services or otherwise, and who is charged with or performs any duties consisting of or relating to Section 3(b) of the Act.
State	The State of Western Australia

# Appendix 2

## Key Legislation, Regulation, Policy and Guidance

<a href="#"><u>Aboriginal Procurement Policy</u></a>	Mandates progressive targets for the award of contracts to Aboriginal businesses by Western Australian Government Agencies.
<a href="#"><u>Aboriginal Empowerment Strategy</u></a>	Outlines how the Western Australian Government will empower its Aboriginal people, families and communities, as well as outlining the State Government's approach to meeting its commitments under the National Agreement on Closing the Gap.
<a href="#"><u>Delivering Community Services in Partnership Policy</u></a>	A policy to improve outcomes for all Western Australians through a genuine partnership between Government Agencies, the not-for-profit Community Services sector and service users in the planning, purchase and delivery of sustainable Community Services.
<a href="#"><u>Financial Administration Bookcase including the Financial Management Act 2006</u></a>	A compendium of financial management legislation and related instructions.
<a href="#"><u>Indexation Policy for the Non Government Human Services Sector (NGHSS)</u></a>	Transparency and consistency in indexation applied to prices in contracting arrangements under the Delivering Community Services in Partnership Policy.
<a href="#"><u>State Commissioning Strategy for Community Services</u></a>	Outlines the strategic role commissioning will play in transforming the delivery of Community Services in Western Australia. Includes implementation of the Agency Commissioning Plan framework as the key tool to plan and monitor progress towards a whole-of-government commissioning approach.
<a href="#"><u>Western Australian Procurement Rules</u></a>	Harmonises the State Government's approach to procurement.
<a href="#"><u>Western Australian Social Procurement Framework</u></a>	Applies to all Government Agencies, as defined in the <i>Procurement Act 2020</i> .
<a href="#"><u>Aboriginal Procurement Policy Implementation Guide</u></a>	Provides information on achieving targets under the Aboriginal Procurement Policy and explains how reporting is managed.
<a href="#"><u>Achieve Value for Money Guideline</u></a>	Assists Government Agencies buying goods, services, Community Services and works.

<a href="#"><u>Agency Commissioning Plan Framework</u></a>	Assists Government Agencies in communicating their future commissioning intentions.
<a href="#"><u>Community Services Outcomes Measurement Framework</u></a>	Enables a shared understanding of outcomes across Government Agencies and the Community Services sector and will better harness data to demonstrate the effectiveness of Community Services at achieving positive outcomes for the people of Western Australia.
<a href="#"><u>Costing and Pricing Government Services Guidelines</u></a>	Assists Government Agencies to better understand their costs and the factors that have the greatest influence on those costs.
<a href="#"><u>Community Services Planning in Partnership Guidelines</u></a>	Assists Government Agencies in planning a Community Services program in partnership with service providers, service users and other stakeholders.
<a href="#"><u>Contract Management Guidelines</u></a>	Assists Government Agencies buying goods, services, Community Services and works to better manage their contracts.
<a href="#"><u>Develop Business Case Guideline</u></a>	Assist Government Agencies to develop a business case when buying goods, services, Community Services, and works.
<a href="#"><u>Evaluation of Offers Guideline</u></a>	Provides information to Government Agencies on evaluation panels, references for Government contractors, competitive neutrality policy, negotiations, and evaluation reports.
<a href="#"><u>Request Development and Contract Formation Guidelines</u></a>	Assists procurement practitioners through the tendering process, including contract award.
<a href="#"><u>Strategic Forward Procurement Planning Guideline</u></a>	Assists Government Agencies to prepare and submit Strategic Forward Procurement Plans.
<a href="#"><u>Procurement Planning Guideline</u></a>	Assists Government Agencies to apply the Western Australian Procurement Rules when planning a procurement.

# Appendix 3

## Useful Resources

### **Counting the Costs: Sustainable Funding for the ACT Community Services Sector**

In early 2021, the Australian Capital Territory's Community Services Industry Strategy Steering Group engaged the Social Policy Research Centre and UNSW Sydney to conduct research to help understand the true costs involved in delivering Community Services in the ACT, and to build evidence to ensure funding levels and arrangements are sufficient to fully respond to community needs.

Further information can be found in the [ACT Government Response to the Final Report](#).

### **Financial Benchmarking Surveys**

As an illustrative resource only, the National Disability Insurance Agency periodically commissions [Financial Benchmarking Surveys](#) to collect information from service providers on staffing numbers, costs, and earnings. This information assists providers to benchmark performance with their peers and informs price setting.

Detailed information on methodology is included in the published reports and may assist in developing costing and benchmarking processes for Community Services. Note that this process is not subject to the principles of the [Delivering Community Services in Partnership Policy](#) (for example, reducing administrative burden).