



Improved commissioning of complex human services

Relational contracting and long-term funding

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1 Proposed reform

Improving the commissioning of complex human services can yield substantial productivity gains. The Brotherhood of St. Laurence (BSL) recommends that government **adopt formal relational contracting and long-term funding agreements** to commission services, starting with areas of live reform such as the disability and employment services systems. This would complement work being done by the Productivity Commission on collaborative commissioning.

Formal relational contracting

Formal relational contracting is an alternative to rigid, transactional contracts. Instead of trying to anticipate all contingencies in advance, it builds a governance framework and principles to guide ongoing collaboration between purchasers and providers. This is used in the private sector and government services internationally, and the University of Melbourne has examined how relational contracting could be trialled in human services, including disability and employment services.¹

Relational contracts also allow greater flexibility for community sector agencies to pool resourcing to meet emerging sector-wide challenges and opportunities including the use of Artificial Intelligence (AI), modern slavery, and sector de-carbonisation. Rigidities in traditional contracts and funding arrangements inhibit inter-agency and cross-sector cooperation and resulting productivity gains.

Formal relational contracts include a 'Part A', in which parties agree to values and mechanisms to respond to unanticipated events, and 'Part B' that specifies outcomes, performance metrics and pricing. This enables dialogue, adaptation and trust between purchaser and provider as

¹ Considine, M, Bonyhady, B, Olney S & Dean K 2024, *Formal relational contracts and the commissioning of complex public services*, position paper, University of Melbourne, Vic.

circumstances change. Relational contracting is suited to the commissioning of complex human services, where outcomes are hard to predict and measure, and where standard contracting approaches can lead to inflexible and counterproductive contract terms and compliance requirements.

Longer-term funding certainty

Government has stated its commitment to longer-term funding agreements through the Community Sector Grants Engagement Framework (and associated Ways of Working Statement 2024²) and the Not-for-profit Sector Development Blueprint 2024³. This can unlock productivity⁴ as outlined below.

2 How this will advance productivity and resilience

Administrative and transactional efficiency:

- **Lower compliance costs.** Relational contracting cuts costs for dispute resolution and repeat procurement. Providers in the Workforce Australia system currently spend up to 60% of their time on administration versus 40–50% in the UK and 20–30% in Sweden.⁵

Enhanced innovation and flexible delivery:

- **Faster adaptation.** Agreed governance and data-sharing let purchasers and providers adjust services quickly, catching issues early and avoiding costly mid-course fixes.

Better outcomes and lower downstream demand:

- **Workforce stability and planning.** Extended contracts support hiring and strategic investment, which has demonstrated connections to improving service quality.⁶
- **Improved client focus.** Less time on compliance allows more attention to outcomes.
- **Reduced future demand.** Trust-based partnerships target genuine needs, which can reduce downstream need for government assistance or services.

3 How it will be budget neutral/positive

Formal relational contracting can sit within existing procurement budgets. Short-term tendering costs may be rise due to the need for new contract forms, however, it can then save money through reduced administrative costs and higher quality services.

² Department of Social Services, [Ways of Working Statement](#): An activity under the Community Sector Grants Engagement Framework, 2025.

³ Department of Social Services, [Not for Profit Sector Development Blueprint](#), 2024

⁴ See, for example: Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*, research report, Canberra.

⁵ Inquiry into Workforce Australia Employment Services 2023, *Rebuilding Employment Services: final report*, (Mr Julian Hill MP, chair), section 6.15, Department of the House of Representatives, Canberra.

⁶ Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*, research report, Canberra.