

7. Innovative service delivery models

STRATEGIC OBJECTIVE Drive high quality consumer-centric services and promote innovative service delivery models in infrastructure sectors

SNAPSHOT

- Technological innovation is changing how customers choose and use services, and driving a growing expectation by consumers that services will be simpler, convenient and personalised. Infrastructure and related services no longer need to be procured exclusively by the NSW Government; consumer demand is driving the creation of new markets led by the private sector and non-government organisations.
- Some new business models, particularly those that use digital technology, may not fit neatly within existing regulatory regimes. It is crucial that the NSW Government provides regulatory settings that allow new business models to develop and proactively identify and support infrastructure and services where flexible, risk-based regulation can enable new markets and products to develop.
- Increasing data availability can facilitate the development of new products and services, enhance consumer and business outcomes, and encourage greater efficiency and innovation in the economy. Additional reforms should be considered to maximise market access to government-owned data within appropriate privacy frameworks.
- The NSW and Commonwealth governments have committed, through the *Intergovernmental Agreement on Competition and Productivity Enhancing Reforms*, to pursue greater efficiency and effectiveness in the infrastructure sector through renewed microeconomic reform. Infrastructure NSW supports these reform directions.
- The *NSW and Contestability Policy and Practice Guide*, adopted in 2016, demands a more structured approach and rigorous analysis in the design and funding of service delivery, including contesting services where this will deliver better outcomes. While good progress has been made by some agencies in adopting commissioning and contestability as part of their service delivery planning, there are further opportunities to consider how services can be provided and who should provide them.
- In the context of growing fiscal constraints, it is imperative that the NSW Government should continue to explore innovative service delivery models where these can deliver better value for money and improved service delivery.

RESPONSE

Summary of key recommendations

Expand the use of innovative service models

- NSW Government agencies (with NSW Treasury) should assess their ability to respond to the *Commissioning and Contestability Policy* and implement steps to separate purchaser and provider roles.
- Continue to proactively identify and support infrastructure or related services where streamlined regulation can enable new markets and products to develop.
- Apply the *Commissioning and Contestability Policy* to the development of long-term infrastructure strategies to enhance customer outcomes and enable closer collaboration, particularly in health, education, TAFE and justice.

7.1 Recent progress

In the *State Infrastructure Strategy 2012* and *State Infrastructure Strategy Update 2014*, Infrastructure NSW identified opportunities to leverage private sector expertise using the Public Private Partnerships (PPP) delivery model. PPPs include core service provisions and customer outcomes to drive the effective design of infrastructure, assets and services, with payment regimes tied to performance.

Major projects in NSW being delivered using variations of the PPP delivery model include the transformation of Darling Harbour, the Sydney Metro North West (SMNW) and Sydney Light Rail (SLR) projects, the Northern Beaches Hospital (NBH), the New Grafton Correctional Centre (NGCC) and the NorthConnex motorway.

More recently, the learnings from these service-enabling infrastructure projects have been used to develop innovative service delivery models, including:

- establishing a dedicated fund to invest in financial markets to generate capital for social housing and implementing a variety of models to deliver more social housing (such as the Social and Affordable Housing Fund)
- entering into an integrated services franchise to combine three modes of public transport (bus, ferry and light rail in Newcastle), with a private operator given incentives to improve customer satisfaction, increase patronage and improve services planning.

7.2 Challenges and opportunities

7.2.1 Consumer expectations and choice

As highlighted in Chapter 1, as incomes rise and people spend more on discretionary services, consumers' expectations of service levels and quality will grow. NSW's ageing population is likely to increase public expenditure as people access health and other services more frequently.

7.2.2 Consumer-centric services

Technological innovation is increasing consumer choice. People want simple, convenient and personalised services that are readily, and in some cases instantly, available. This market change is forcing service providers to shift away from traditional models, where consumers are told where, when and how to purchase services, to more tailored services that match consumers' expectations for service availability, quality and customer experience.¹¹⁸ In other words, consumers now expect to be at the centre of the services they receive.

This trend is already affecting infrastructure-enabled services. Digital devices now allow transport consumers to choose and combine services such as bike-sharing, car-sharing, ride-sharing, taxis and mass transit services to meet their travel needs. In human services, patient access to health records, tele-health care and the rise of connected wearable technologies that transmit human activity and vital signs to

consumers and service providers will allow consumers to better manage their own health in their own time.

7.2.3 National commitment to competition policy

In the 1990s, national competition policy reforms in the infrastructure sectors (utilities, telecommunications and parts of the transport sector) resulted in strong productivity growth, which is estimated to have increased national Gross Domestic Product (GDP) by around 2.5 per cent.¹¹⁹ These reforms included separating regulatory and commercial functions within public monopolies and introducing opportunities for contestable service provision.

NSW's annual productivity growth in the 2000s slowed, averaging only 1.1 per cent. Over the last five years, it has averaged 1.3 per cent.¹²⁰ NSW Treasury estimates that annual productivity growth of 1.5 per cent is required to sustain economic growth and living standards at current levels. Serious micro-economic reform and innovation are needed to achieve this, and the infrastructure sector can play a key role in this regard.

In 2016, the NSW and Commonwealth governments signed the *Intergovernmental Agreement on Competition and Productivity Enhancing Reforms* (the Competition and Productivity IGA) as part of a shared commitment to pursue greater efficiency and effectiveness in the infrastructure sector, and to renew broader microeconomic reform. Infrastructure NSW supports the implementation of key reform directions from the Competition and Productivity IGA, which include:

¹¹⁹ Productivity Commission 2005, p. XVII

¹²⁰ NSW Treasury 2016, p. 36

¹¹⁸ World Economic Forum 2017, p. 16

- providing greater consumer choice and adopting commissioning and contestability to drive innovation and value for money in the delivery of human services (described in this chapter)
- accelerating heavy vehicle road pricing reform and investigating options for broader road user pricing reform, aided by new technologies (refer to Chapter 9.3.3)
- transferring responsibility for electricity and gas reliability standards to a national framework (refer to Chapter 10.3.1)
- improving governance, economic regulation and using competition consistent with the National Water Initiative
- improving procurement and tendering, focusing on outcomes rather than outputs to allow for innovation, and promote choice and diversity of providers (refer to Chapter 3.3.5 and this Chapter).¹²¹

7.3 Response

At the broadest level, the key roles of government in the provision of infrastructure and related services include:

- purchasing and/or providing infrastructure and related services – ensuring services are cost-effectively delivered to a high standard
- regulating services – protecting the public interest whilst ensuring regulation does not unnecessarily hinder innovation
- providing data – appropriately sharing information that enables service providers to better meet customer needs.

In each of these areas, there are opportunities for the NSW Government to explore innovative service delivery models.

7.3.1 Purchasing and providing infrastructure and related services

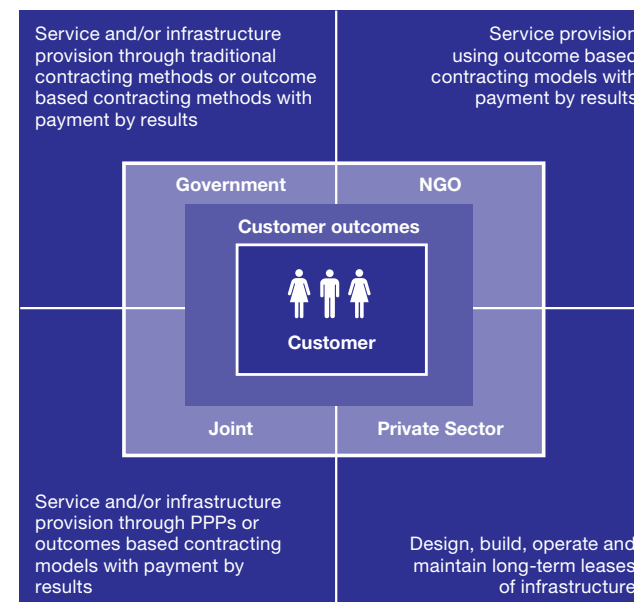
New infrastructure assets are almost always delivered by the private sector. Various well-established procurement models exist for government to purchase assets, ranging from traditional fixed-price design and construct arrangements and PPPs, through to more collaborative arrangements like early contractor involvement and alliancing. There is no single best procurement model: the choice of model should be based on each project’s unique characteristics and a rigorous assessment of its risk profile – all with a view to achieving value for money.

Increasingly, customer-facing services that have traditionally been delivered by government, including those enabled by infrastructure, are being delivered by the private sector. But selection of the most appropriate model for service delivery is not always subject to the same level of analysis as it is for asset procurement. To this end, the NSW Government adopted a *Commissioning and Contestability Policy* and *Practice Guide* in 2016, which requires a more structured and thorough approach to the design and funding of service delivery.

Under a commissioning approach, governments define service outcomes by considering customer needs and then adopt delivery models (particularly open and contestable models) that make the best use of

available government resources. Contestability is the process of evaluating and benchmarking services against credible alternatives.

Figure 17 – Customer outcomes driving service delivery



Source: Infrastructure NSW 2017

¹²¹ Council of Australian Governments (COAG) 2016

Substantial progress has been made in adopting contestability in agencies such as Transport for NSW, the Ministry of Health, the Department of Justice and the Department of Family and Community Services. These agencies are now routinely considering commissioning and contestability opportunities as part of their service delivery planning. However, broader and ongoing application of the policy and guidelines across the NSW Government is warranted.

Implementation of the *Commissioning and Contestability Policy and Practice Guide* is the first step towards a fundamental change in the way government thinks about public services. Embedding commissioning and contestability within NSW Government infrastructure and service planning will require the NSW Government to clarify the highest level outcomes it is aiming to achieve. This discipline will require the Government to be more disciplined and transparent in specifying the services it buys on behalf of the community. Some of the outcomes, particularly those relating to social issues (such as reducing prisoner recidivism in the justice sector or social housing) may require coordination of various ‘wrap-around’ services delivered by multiple government agencies, non-government organisations and/or private providers.

7.3.2 Regulating services

Some new business models, particularly those that use digital technology, may not fit neatly within existing regulatory regimes. It is therefore important for governments to provide regulatory settings that allow new business models to develop. The Productivity Commission has argued that, rather than extending existing regulations, governments should

use technology-led disruption as an opportunity to reassess risk and adjust regulation.¹²² This reflects the approach taken by the NSW Government to address new business models in relation to ride-sharing.

Ride-sharing regulation

When UberX entered the NSW market, Roads and Maritime Services initially enforced existing taxi and hire car legislation. However, this legislation was focused on drivers and operators and did not directly regulate companies that provide booking services. To determine the best regulatory approach to this new ride-sharing business model, the NSW Government commissioned an independent review of point-to-point transport services regulation.

Following the review, the NSW Government pursued key reforms through the Point to Point Transport (Taxis and Hire Vehicles) Act 2016 including:

- the removal of restrictive requirements for booked services, such as license requirements and restrictions on vehicle types
- introducing an outcomes-focused regulatory regime, which included a general duty safety framework
- removing the regulation of service quality, with businesses being responsible for customer service and other quality issues.

Source: Transport for NSW

In 2016, in response to an Audit Office of NSW performance audit of red tape reduction initiatives in NSW,¹²³ the NSW Government commissioned an independent review of the NSW regulatory policy framework (the Independent Review) to develop recommendations for enhancing the policies, institutions and tools that underpin regulatory quality in NSW.¹²⁴

The Independent Review report, which was finalised in 2017, found that the emergence of new business models was at risk of being stifled by existing regulation and explored the use of regulatory trials and ‘sandboxes’ to support adaptive responses co-designed by government and stakeholders. Sandboxes are targeted regulatory exemptions granted for a limited period to reduce uncertainty and help firms to manage regulatory risks during the testing stage of their products. Such arrangements have been used in the financial technology (FinTech) industry with success.¹²⁵

The report recommended that regulatory frameworks should be customer centric and outcomes focused, supported by a regulatory culture that is open to alternative approaches to achieve desired outcomes.¹²⁶ Infrastructure NSW supports the Independent Review’s recommendations in this regard.¹²⁷

¹²² Productivity Commission 2016, p. 98

¹²³ Audit Office of NSW 2016

¹²⁴ Regulatory Policy Framework Review Panel 2017

¹²⁵ Ibid, p. 99

¹²⁶ Ibid, p. 7

¹²⁷ Ibid, p. 34

Regulatory sandboxes

The Department of Finance, Services and Innovation launched the NSW Regulatory Sandboxes pilot program as a key initiative of the NSW Innovation Strategy, released on 30 November 2016. The program is designed to create opportunities for business to test new products and services that are currently not accommodated under NSW regulatory frameworks. This is intended to enable innovative products and services that deliver clear benefits for the people of NSW to reach market faster. The pilot program is currently in progress.

7.3.3 Providing data

Data-sharing can facilitate the development of new products and services, enhance consumer and business outcomes, and encourage greater efficiency and innovation in the economy. According to the World Economic Forum, the rate at which data is being produced is increasing dramatically, with 90 per cent of the data in the world today created just in the past two years. But most of this data lies dormant, with only 0.5 per cent of it having been analysed.¹²⁸

Data provided by and collected from consumers can be used to develop new and improved products and services, and generates significant opportunities for innovative and competitive responses. Government-generated data is at least as valuable as data generated by the free market.

¹²⁸ World Economic Forum 2016

Transport for NSW Open Data Hub

Launched in 2016, the Open Data Hub and Developer portal is where Transport for NSW provides open transport data (such as static timetable information, as well as live and real-time information) to give the private sector the capacity to create innovative solutions for customers. There are currently over 5,000 registered users and over 1,500 applications have been created from the data that has been made available.

Through releasing data and collaborating with developers directly through innovation challenges, Transport for NSW can encourage the creation of customer-focused products such as real-time customer apps and the digital learner driver log book.

Source: Transport for NSW, <https://opendata.transport.nsw.gov.au/>

NSW has strong legislative and policy settings for open data. The *Data Sharing (Government Sector) Act 2015* and *Government Information (Public Access) Act 2009 (NSW)* place the onus on government agencies to make a wide range of data and other information available for use by other agencies, businesses and the community.

While NSW Government agencies are releasing data year-on-year, the Independent Review reported that more data could be shared to achieve better policy or regulatory outcomes. Infrastructure NSW considers that additional policy and procedural reforms should be considered to maximise appropriate data-sharing to enable innovation and strategic service delivery.

Recommendations relating to the provision of NSW Government infrastructure-related data are outlined in Chapter 6.

7.3.4 Expanding innovative service delivery models

The private sector already provides a wide range of infrastructure-related services. National competition reforms over the last two decades have led to the privatisation of telecommunications, ports, airports and most energy services, with consumers paying for services based on regulated prices and service standards.

The private sector also delivers:

- human services – across Australia, most primary healthcare is delivered by private providers: 40 per cent of patients are admitted to not-for-profit or private hospitals for secondary health care; 30 per cent of students attend a non-government school; and 20 per cent of prisoners are held in privately operated correctional facilities¹²⁹
- transport services – 18 per cent of total Opal trips were made on privately operated services¹³⁰
- water services – for Sydney Water's operations, 100 per cent of mechanical and electrical maintenance is undertaken by private providers.¹³¹

There is scope for the NSW Government to trial or introduce further competitively driven innovative service delivery models. Some of these opportunities are set out below.

¹²⁹ Sturgess, G L 2015a
¹³⁰ Transport for NSW 2017
¹³¹ Sturgess, G L 2015b, p. 4

Transport

The transport sector has established new models for service delivery through the franchising of Sydney Ferries, some metropolitan bus contracts and, more recently, the integration of bus, ferry and light rail services in Newcastle.

Over the next five years, there are opportunities to:

- re-tender the Sydney Ferries Network franchise when it expires
- investigate tendering the bus regions operated by the State Transit Authority following an assessment of the outcomes achieved from the Region 6 tender process
- assess other opportunities for private sector involvement as infrastructure and service investments are completed.

Future Transport 2056 outlines a move to a 'Mobility as a Service' model (MaaS), where customers access combined public and private transport services through a digital platform such as a mobile app. This would enable travel planning and payments to be part of a single service.

Sydney Ferries Network franchise

Sydney Ferries Network (SFN) is a franchise model of transport operated by a PPP venture between Transdev and Broadspectrum under the title 'Harbour City Ferries' (HCF).¹³² Transdev has acquired 100 per cent of Harbour City Ferries from 8 December 2016. Prior to this, SFN was operated by Sydney Ferry Corporation (SFC). SFC's contract was terminated after a 2007 inquiry found its operation to be ineffective.¹³³

In July 2012, the NSW Government awarded HCF a seven-year franchise arrangement contract for responsibility of the operation, care and maintenance of all ferry vessels and facilities. Transport for NSW retains fare revenue and control over fare structure, routes and timetables, and ownership of original Sydney Ferry vessels and shipyard maintenance facilities, which are leased to HCF to maintain and operate.¹³⁴

In 2016, a NSW Audit Office found that franchising was justified, with HCF being generally effective in providing ferry services against the ferry system contract KPI targets and comparable to those achieved by its predecessor, SFC, over the 27 months prior to its contract being terminated.¹³⁵ The franchise had a total saving of around \$100 million, approximately 12 per cent per annum below that of HCF's predecessor¹³⁶ and risk had been effectively transferred from public to private sector, absorbing any additional costs above the agreed contract price.¹³⁷

Integrated service delivery – Newcastle Integrated Services

Newcastle Integrated Services is an Australian-first integrated model of transport with a single operator running multiple modes – bus, ferry and light rail – to meet the needs of end-users.

The new model delivers improvements to all modes, including increased operating hours and higher frequency ferry and light rail services. Early in 2018, Keolis Downer will introduce a revised bus network that aims to optimise services, reduce journey times and offer an on-demand service. A new 'night owl' bus service will support the weekend night-time economy. This model facilitates integrated and seamless travel between different modes of transport.

¹³² Audit Office of NSW 2016, p. 1

¹³³ Ibid, p. 2

¹³⁴ Ibid, p. 2

¹³⁵ Ibid, p. 8

¹³⁶ Ibid.

¹³⁷ Ibid, p. 11

Health

Several not-for-profit and private health providers deliver primary and secondary health care services across NSW. The Ministry for Health has progressively introduced innovative service delivery models, including the procurement and delivery of the Northern Beaches Hospital. This hospital will open in 2018; its performance should be assessed over time as a model that could be applied more widely across the health sector.

Education

Service delivery models that could be adopted to deliver education outcomes include:

- packaging the delivery of multiple new and upgraded schools
- combining new school builds with maintenance and refurbishment
- providing modular, portable classrooms through sale and lease back arrangements
- providing air conditioning to schools where the private sector invests in the necessary assets and the Department pays a service fee.

Justice

Correctional centres in Parklea and Junee are currently operated by the private sector. In June 2017, a PPP contract was awarded to the private sector to design, deliver, operate, maintain and finance a new 1,700 bed facility in Grafton. Operational payments for the NGCC are linked to agreed outcomes relating to rehabilitation and reintegration, safety and security, decency and respect, professionalism and accountability and health. Corrective Services NSW also recently benchmarked and then market tested the operation of the John

Morony Correctional Centre (near South Windsor), applying the same outcomes.

Building on this work, there is an opportunity to rollout more contemporary, outcomes-focused approaches to prison operations, including through private sector operations, where these would achieve better value for money. A review of courts and tribunals services is under way, which may lead to opportunities to contest some court services.

Family and Community Services

Social and affordable rental housing is an important part of the State's infrastructure, providing disadvantaged people and those on low incomes with a secure foundation from which they can access other services and opportunities to improve their circumstances. The Land and Housing Corporation owns nearly \$50 billion of assets, second in value to that of the transport portfolio.

Demand for social housing in NSW is growing. As at June 2016, about 59,907 households were on the social housing waitlist – an increase of almost 15,000 since June 2007.¹³⁸

Current social and affordable housing infrastructure is unable to meet existing or future demand,¹³⁹ with an estimated 31,000 to 51,000 additional affordable rental homes needed in Sydney by 2026.

The social housing sector faces challenges in meeting the needs of its tenants. These include an insufficient number of dwellings, ageing and deteriorating assets,

¹³⁸ Family and Community Services (FACS) 2017
¹³⁹ Ibid.

a two-tiered scheme of financial assistance for renting social housing or in the private market, poorly located housing stock and underutilisation of assets (for example, some tenants are in properties that have more bedrooms than they require).¹⁴⁰

Social housing stock has not kept pace with demographic changes and the needs of tenants. In 2015, three bedroom detached homes made up more than one third of total asset stock. While one bedroom apartments are the housing type most in demand, these comprise only 25 per cent of public housing dwellings.¹⁴¹

The National Disability Insurance Scheme (NDIS) has led to changes in Family and Community Services' (FACS) operating model. Several commissioning and contestability opportunities have been pursued in recent years, including:

- in 2017, through the Social and Affordable Housing Fund (SAHF), FACS entered into several contracts with not-for-profit organisations and community housing providers to provide 2,200 new dwellings through a tenancy arrangement and support services, with flexibility to convert to outcomes-based programs. A further phase of this program is currently underway
- the Communities Plus program – a new model for delivering a \$22 billion, social, affordable and private housing building program aimed at increasing housing supply by 63,500 homes as part of integrated developments across NSW. For example, the Ivanhoe Estate will deliver at least 950 new social houses in an integrated community of approximately 3,000 homes.

¹⁴⁰ Productivity Commission 2017, p. 146
¹⁴¹ Infrastructure Partnerships Australia 2015, p. 30

Social and Affordable Housing Fund

The Social and Affordable Housing Fund (SAHF) is an innovative approach to delivering social and affordable housing in NSW. SAHF Phase 1 will deliver up to 2,200 additional social and affordable homes in metro and regional NSW, together with access to integrated support services through Tenant Support Coordination. The SAHF was established under legislation for the purposes of investing in the financial markets to generate funding for social housing. The investment proceeds are used to pay providers under the SAHF contract. The contract leverages existing PPP principles, recognising that the State does not own the asset – different to most situations where the State retains ownership of the asset throughout the contract term.

Source: NSW Treasury

The NSW Government is also currently undertaking a Social Housing Management Transfers program across selected areas of NSW. Under this program, tenancy management and wrap-around services will be delivered by community housing providers.

Noting the range of delivery models being used to deliver social and affordable housing, and the results of the Independent Pricing and Regulatory Tribunal (IPART) review and the recent Productivity Commission report, Infrastructure NSW's considers that the NSW Government should continue to review the best ways to improve the sustainability of the social housing

system to arrest the ongoing inequity gap. This should include leveraging state infrastructure to facilitate the delivery of more affordable and social housing into new communities close to transport, education, community facilities, shopping and other services.

Infrastructure NSW considers that a review could be undertaken to identify lessons learned, optimise existing models and inform an options paper to identify new or improved delivery models for the provision of family and community services. The review should involve developers, financiers, investors and the not-for-profit sectors.

Recommendation 36

Infrastructure NSW recommends that NSW Government agencies (with NSW Treasury) assess their ability and capability to respond to the *Commissioning and Contestability Policy* and implement steps to separate purchaser and provider roles.

Recommendation 37

Infrastructure NSW recommends that the NSW Government continue to proactively identify and support infrastructure or related services where regulation can enable new markets and products to develop.

Recommendation 38

Infrastructure NSW recommends that NSW Government agencies apply the *Commissioning and Contestability Policy* to the development of long-term infrastructure strategies to enhance customer outcomes and enable closer collaboration, particularly in health, education, TAFE and justice.

Recommendation 39

Infrastructure NSW recommends that the Department of Family and Community Services continue to work with NSW Government agencies to explore opportunities to embed social and affordable housing into future infrastructure projects, noting the benefits delivered by increasing the supply of social and affordable housing close to services, transport and community facilities. A 'lessons learned' review of existing models should be undertaken in the first quarter of 2018 and an options paper prepared for government by the end of 2018.