

Productivity gains in the non-market sector

Lessons from a NSW Success Story at the John Morony Correctional Centre





Introduction

The Susan McKinnon Foundation and Prof Gary Sturgess have partnered to document and share insights from the transformation of the John Morony Correctional Centre.

Susan McKinnon Foundation

The Susan McKinnon Foundation is focused on strengthening Australia's democracy. We incubate, deliver and support practical improvements to help Australia achieve a more fit-for-purpose political, policy and service delivery system. Our goal is for governments to be more transparent, accountable and inclusive. Our work is motivated solely by the long-term public good. Our approach is non-partisan and is undertaken in cooperation with all sides of politics.

The foundation's initiatives include the McKinnon Prize for Political Leadership and the McKinnon Institute. It was founded by Sophie Oh and Grant Rule.

Prof Gary Sturgess

Gary Sturgess is an academic and former senior public servant with deep experience in the commissioning of public services. He was Executive Director of the Serco Institute, a UK-based think tank specializing in public service markets, and from 2011 to 2022, he held the NSW's Premier's Chair in Public Service Delivery at ANSZOG, specializing in commissioning. In 2016, Gary was appointed by the NSW Cabinet as the independent chair of a board overseeing the recommissioning of prison services in the state.

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SMF and Gary Sturgess have partnered to document the transformation of the John Morony Correctional Centre (John Morony) and identify lessons for corrections and other public services. This document shares those lessons. It's informed by detailed interviews with people who were involved in the design and implementation of the new approach.



Overview

Governments need to do more with less in the delivery of human services. John Morony provides a rare and valuable case study about how to empower frontline managers to deliver.

Human services like health care, education, aged care, disability support and correctional services are increasingly important to Australian society and make up a growing proportion of the economy.



Governments across Australia are grappling with how to meet the growing demand for these services, in the context of a tough economic climate and budget deficits.



Human services are reliant on the motivation and engagement of people, and the key to reform lies with front-line managers. However, studies of successful frontline reforms are rare.



The John Morony case study, based on detailed interviews with 52 participants, provides an example of how to empower frontline managers to deliver better frontline services.



John Morony Case Study – A Summary

The right to manage John Morony was subject to an open market process and an in-house public sector team won. Substantial, sustained improvements in quality and cost have been achieved, including reductions in assaults, sick leave, and operating costs, and improvements in inmate employment rates and out-of-cell hours.

Many lessons can be drawn from this experience, including the value of:

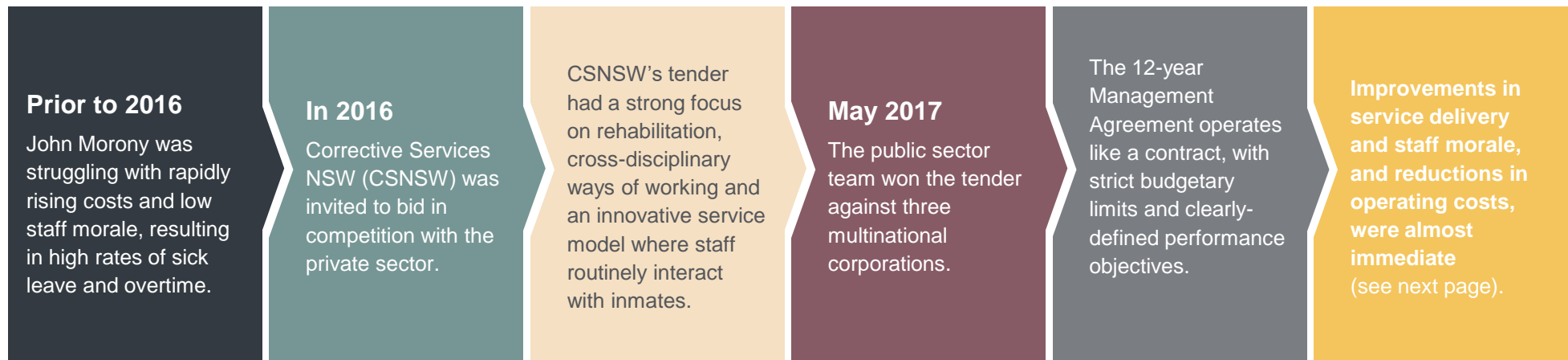
- Creating challenge and contestability
- Focusing on the management of the frontline
- Effective performance management, including:
 - Setting clear objectives
 - Giving frontline management certainty and the space to innovate
 - Holding management to account for results
- Effective financial management
- Using binding agreements between commissioning agencies and frontline units



A new approach

In 2017 a public sector team outcompeted three multi-national firms to win a 12-year Management Agreement to run John Morony.

The John Morony Correctional Centre is a 440 medium / maximum security remand facility located in the Francis Greenway Correctional Complex, 5km south of Windsor in Northwest Sydney.





Impact






As a result of the new approach, more inmates are engaged in employment, John Morony is cheaper to run than other public facilities, and staff sick-leave rates have reduced dramatically.





Critical success factors - overview

There are five key factors that were critical to the success at John Morony.

01	Challenge 	The in-house team at John Morony would never have proposed such a radical change if they hadn't been confronted with the possibility of losing the right to manage the facility to an external provider.	see p7
02	Focus on the frontline 	Reform at John Morony focused on the operation of the front-line unit that delivered day-to-day services, especially the management team of this unit.	
03	Performance management 	The performance management approach for John Morony was successful because it set out clear objectives, gave management certainty and space to innovate, while holding them accountable for results.	see p8
04	Financial management 	The management team at John Morony received a predictable stream of payments in return for delivering services. They also faced meaningful incentives, including financial abatements if they failed to meet targets.	
05	Commitment 	The performance and financial management approach was captured in a quasi-contractual agreement that set out what management would deliver and how it would be measured, consequences for success and failure, what financial resources would be made available to deliver those results and over what period of time.	



1 & 2: Challenge and the frontline

Important insights can be drawn from John Morony about how to challenge management through recommissioning and why it's important to focus on the front line.

Lesson from John Morony

1. Challenge

- The in-house team at John Morony would never have proposed such a radical change if they hadn't been confronted with the possibility of losing the right to manage the facility to an external provider.
- Performance at John Morony began to improve even before the in-house team submitted their proposal – it was the announcement of market-testing that prompted the change.



Insights

- The process of formally recommissioning a public service can be used to challenge management to develop a comprehensive plan for long-term service improvement.
- Contestability can be introduced into the public service sector without a heavy reliance on outsourcing. Market-testing with in-house bids is one option, but there are alternatives such as benchmarking with accountability and consequences.

2. Focus on the frontline

- Reform at John Morony was focused on the operation of the front-line unit that delivered day-to-day services at the Centre, and in particular on the management team at this unit.

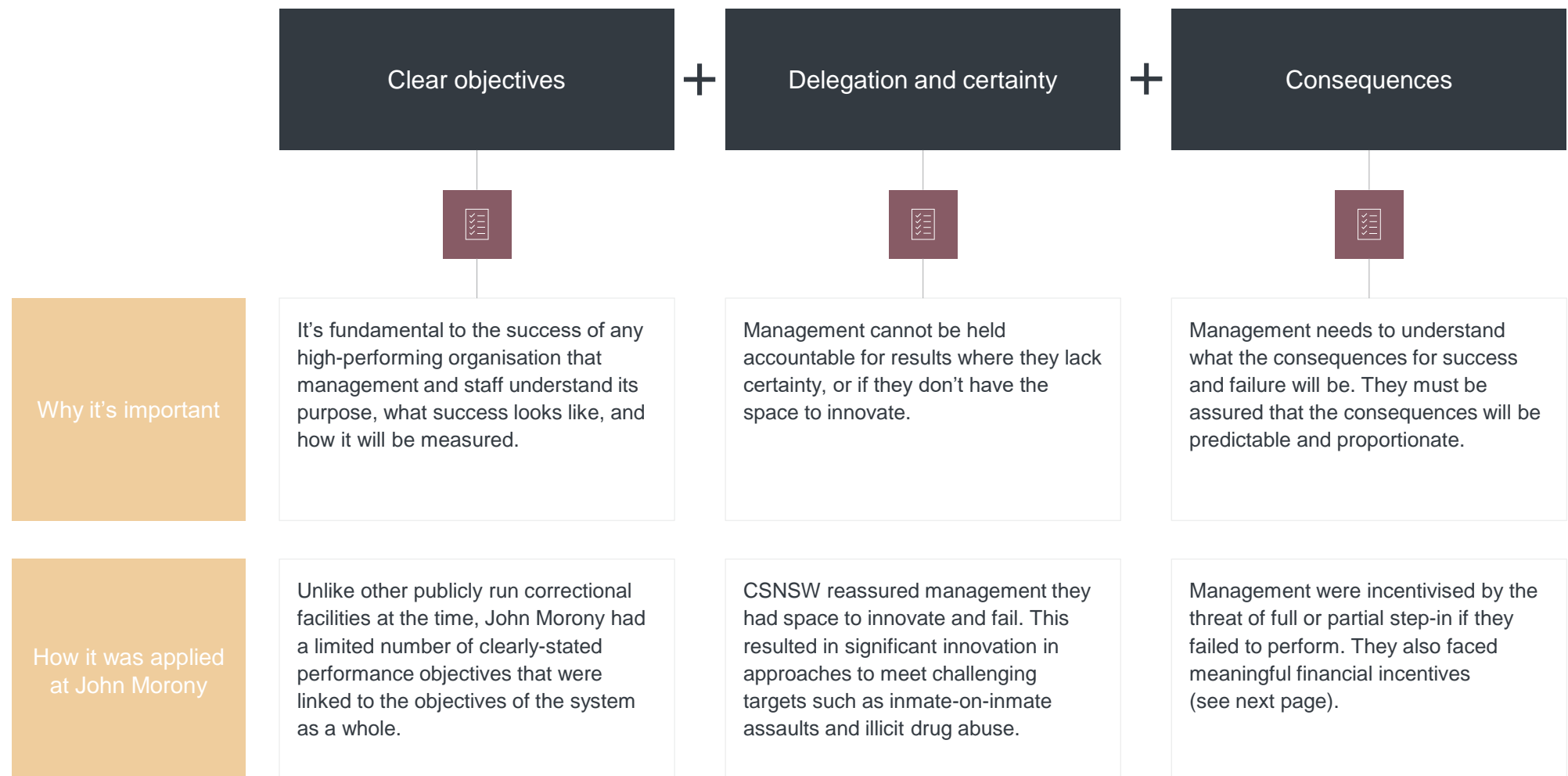


- Reform must focus on the units that actually deliver the services – those who are as close to the client as possible.
- In particular, reform must focus on the authority, capability and management of those units.



3. Performance management

The John Morony approach was successful because it set out clear objectives, gave management certainty and the space to innovate, while holding them accountable for results.





4. Financial management

Financial management at John Morony operates differently from all other prisons, and most other public services in the state.

Lesson from John Morony

Management at John Morony have absolute clarity around future spending for the duration of the Management Agreement because of a predictable stream of payments made in return for delivering services to CSNSW. They know they cannot ask for more unless there has been a fundamental change in external circumstances. To balance their budget, they must ensure an ongoing stream of revenue from industries.

They also face meaningful financial incentives, including financial abatements for the failure to meet performance targets. The Management Agreement specifies revenue for the duration of the contract - deficits caused by cost overruns or financial abatements can't be subsidised from the CSNSW budget. The concept of financial break-even has real meaning at John Morony.



Insights

- It is fundamental to exceptional delivery and service innovation that management has absolute clarity years in advance of what their budgets will be.
- It makes a big difference when income is received in return for delivering services according to a multi-year agreement, rather than simply as an annual budgetary appropriation. This includes the prospect of abatements where services are not delivered to agreed standards.
- Effective operational management is facilitated by the inclusion of an operating margin, so that surpluses can be accrued, and funds can be borrowed against future revenue to cover temporary shortfalls.



5. Commitment

It's important that the commissioning agency and frontline unit enter into a binding agreement that involves clear commitments on both sides for a defined term of years.

Lesson from John Morony

John Morony is managed under a quasi-contractual arrangement that ensured there was mutual commitment on:

- what management would deliver and how it would be measured,
- what the consequences would be for success and failure,
- what financial resources would be made available to deliver those results and over what period of time.



Insights

- Formal Management Agreements similar to a contract should be signed with the managers of front-line units. These should involve clear commitments to both results and resources for a defined term of years.
- Such agreements should be negotiated between the commissioning agency and the management team, so there is a strong sense of obligation on both sides.
- Substantive changes should not be made during the term of the agreement, unless there are significant changes in external circumstances (such as a pandemic).
- The need for policy innovation can be overcome by renewing the agreements with the various units across the system on a rolling basis.



Next steps

John Morony provides valuable insights, but it only represents a single case study. There's an opportunity to roll-out the approach in other correctional facilities to further build our understanding of what works.

What government could provide

To adapt this approach for use in another correctional facility - with a view to scaling it up over time. Some care will be needed to ensure the conditions for success are replicated, and that any roll-out takes place at a manageable rate.



What SMF can offer

Resources to support the adaption and implementation of this approach at other facilities, including Gary Sturgess as an advisor.

Access to data and the ability to assess outcomes.





Resources to support research, data analysis and independent evaluation to further build the evidence base from John Morony and any future applications of the approach.



Appendix 1

The table below provides some specific insights from the John Morony experience about how to set clear and effective objectives and consequences.

Objectives		<ul style="list-style-type: none">• Develop a statement of purpose, with a small number of measurable performance objectives for each individual unit.• Specify in advance the performance indicators by which success will be measured. These should be high-level outputs, not activities or inputs, so that management has room to innovate.• Performance objectives should be challenging but achievable over the course of several years.• They should remain fixed for at least five years and ideally longer, to encourage management to innovate.• It may be necessary to suspend some of the performance targets for a time due to external factors such as COVID, but this should be exceptional.• The commissioning agency and management need to develop mutually-understood counting rules, and honest and economical data collection technologies.• Results should be reported regularly to management and staff, so there is internal commitment to improvement.
Consequences		<ul style="list-style-type: none">• Effective performance management requires consequences as well as accountability. To make a contribution to better delivery, consequences must be predictable and proportionate, they must escalate with seriousness and acknowledge success as well as failure.• Commissioners should draw on the full range of possible incentives – external intervention, the temporary loss of managerial autonomy, reputational incentives, and in some circumstances, financial ones.• For performance management to work well, commissioning agencies must develop an effective intervention regime.• Early responses should be directed to supporting the incumbent management team, but interventions should escalate if operational managers are unable to respond.



Appendix 2

Management at John Morony have successfully reduced assaults and illicit drug use and were consistently meeting their hours-out-of-cell target before COVID. Examples of their KPIs:

	Target	Results
KPI 2: Hours out of cell	<ul style="list-style-type: none">• Every inmate has a minimum of 7.5 hours out of their cell per day.	<ul style="list-style-type: none">• 100% achievement from January 2020, except for periods of forced lockdown due to COVID, for which they were not abated.
KPI 5: Assaults on inmates by other inmates	<ul style="list-style-type: none">• Zero serious or significant assaults, and fewer than 1.5 assaults per 100 inmates.	<ul style="list-style-type: none">• A reduction in the average trend from 3 assaults per 100 inmates in 2018, to around 2 in November 2021.
KPI 7: Illicit drug use	<ul style="list-style-type: none">• A positive result (from a random test of 5% of all inmates) in fewer than 6% of those tested.	<ul style="list-style-type: none">• A reduction in the trend from around 30% in January 2018 to below 10% in November 2021.

These two KPIs have not been fully achieved, but they were deliberately set to be challenging to foster improvement over time.



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