

Relational Contracting

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Setting the scene – understanding the key concepts and ways of working

Relational contracting

What is relational contracting?

- Originates in relational contract theory which sees contracts as ongoing **relationships** embedded in social and organisational context, not one-off discrete transactions.
- In public and human services, relational contracting means designing funding and governance so that trust, shared goals, joint problem-solving and adaptation over time are as important as the written terms.

Why it's a hot topic now?

- Short-term, competitive, transactional grants have produced system fragmentation, workforce instability, weak collaboration and poor continuity for clients in Australian community.
- The current DSS and broader Commonwealth reviews explicitly identify over-use of short-term contracting, lack of genuine partnership and rigid contracts as key failures, and highlight relational contracting as one pathway to more stable, outcomes-focused, learning systems.

Strengths and challenges of relational contracting

Strengths of relational contracting

- Supports adaptation in complex, changing environments by allowing partners to adjust scope, methods and investment as needs and evidence evolve, rather than re-tendering every time something changes.
- Builds trust, reduces adversarial behaviours and encourages transparency about risks, costs and performance, which can improve outcomes for clients and enable innovation.
- Can lower long-run transaction and enforcement costs by avoiding constant re-specification and litigation, with conflicts managed through governance and relationships rather than only formal sanctions.

Weaknesses / risks of relational contracting

- Can weaken hard protections if expectations are vague; if trust breaks down, weaker parties (often NFPs) may have limited recourse and be exposed to opportunism or unilateral changes.
- Requires high capability, stability and integrity on both sides; staff turnover, power asymmetries and poor governance can quickly erode trust and create 'soft' capture or cosy relationships.
- More demanding upfront: needs time, facilitation and governance design, and can be politically sensitive where probity, competition and equity of access are front-of-mind.

When to use relational contracting?

When to use relational contracting?

- Use where: outcomes are complex/long-term, environments are uncertain (e.g. multi-need families, place-based work, Indigenous partnerships), and government needs providers as co-designers and market stewards, not just vendors.
- Use where: continuity of relationships and workforce, deep local knowledge, and ongoing learning/adaptation are critical, and where longer-term commitments are feasible and desirable.

When not to use (or limit) relational contracting

- Don't rely on it for simple, standardised, low-complexity goods/services where tight specifications, price competition and easy switching are appropriate (e.g. commodities, highly standardised back-office functions).
- Be cautious where there are extreme power imbalances, high corruption risk or very weak governance, unless you can hard-wire safeguards (clear escalation, independent oversight, strong probity and conflict-of-interest rules).

How is it different from:

Collective Impact

- CI is a framework for multi-actor collaboration around a shared population-level outcome, with common agenda, shared measures, mutually reinforcing activities and a backbone organisation.
- Relational contracting is about the **form of the contract and governance**; it can be used to underpin a Collective Impact initiative (e.g. written agreements reflecting relational norms), but CI can also exist without explicit relational contracts.

SROI (Social Return on Investment)

- SROI is an outcomes and valuation methodology that monetises social, environmental and economic impacts to assess 'value for money'.
- Relational contracting is about how parties structure rights, responsibilities and behaviours over time; you might use SROI (or other evaluation methods) inside a relational contract, but SROI itself is not a contracting model.

How is it different from:

Social procurement / SPSP-type models

- Social procurement frameworks (e.g. Victorian Social Procurement Framework) use purchasing power to direct spend to social enterprises, Indigenous businesses, and other 'social benefit suppliers', adding social value to otherwise standard contracts.
- Relational contracting may or may not involve social procurement; social procurement focuses on **who** you buy from and the extra social outcomes achieved, whereas relational contracting focuses on **how** the commissioner and provider work together over time (governance, trust, adaptation).

Other 'partnership' / performance models

- Traditional performance-based or payment-by-results contracts often transfer risk to providers via rigid metrics and sanctions, even if they use partnership language.
- Relational contracting may still use outcomes and incentives, but explicitly balances them with shared governance, joint problem-solving and mutual commitments, seeking to avoid the gaming, creaming and cost-cutting seen under more transactional regimes.

Some global examples

Example	Level / Scope	What's relational (in practice)	Key insight
Essex – My Home Life, relationship-centred care (UK)	Adult social care, care homes	Commissioning built around quality-of-life outcomes, co-designed self-assessment, provider peer networks, leadership support.	Make relationships, culture and quality-of-life explicit commissioning objectives.
Adult social care partnerships (UK)	Multiple Local Authorities (LAs), adult social care	Long-term LA–provider partnerships, co-production with communities, de-emphasis on repeated competitive tendering.	Relational skills and partnership mindset in commissioners are as critical as tools.
Children's residential care strategic commissioning (UK)	Multi-LA consortia, children's homes	Joint needs analysis, shared market shaping, collaborative problem-solving on placements and quality.	Pooling commissioning and working as a bloc enables more strategic, relational market influence.
Ontario Health Teams & Collaborative Decision Making Arrangements (CDMAs) (Canada)	Provincial health system, OHTs	Shared governance, joint accountability for outcomes, formal shared-governance agreements for joint resource and quality decisions.	Hard-wiring shared decision-making into governance turns relationships into system infrastructure.
Local OHT CDMAs (e.g. Network 24 / Central West) (Canada)	Local multi-provider networks	Joint steering committees, co-designed pathways, shared risk, ongoing board-to-board relationships.	Concrete mechanisms (committees, templates, joint projects) make 'relational' operational.

Cross-cutting theme	Common learnings	Recurrent pain points
Role of relationships	Trust, shared vision and joint governance must be intentional and resourced, not informal add-ons.	Competes with procurement rules, price pressure and short funding cycles.
Co-production and voice	Involving providers, staff and lived experience improves fit and ownership of models.	Time-consuming; participation quality varies with capability and mandate.
Capability and support	Leadership development, peer learning and commissioner skills are essential enablers.	Uneven skills and confidence; stress can trigger a reversion to compliance.
Governance and contracts	Relational aims need embedding in formal agreements, indicators and dispute processes.	Multi-partner governance is complex, slower, and politically sensitive.

Design principles

1. Make relationships a formal objective

For government:

- Explicitly state 'strong, trusting, long-term relationships with NFP partners and communities' as a core objective in commissioning strategies and program guidelines.
- Bake relational outcomes (trust, continuity, collaborative behaviours, co-production, culturally safe practice) into frameworks, logic models and evaluation plans.

For NFPs:

- Position your organisation as a strategic partner, not just a service vendor – bring data, community insight and innovation options into commissioning conversations.
- Show how your governance, workforce and partnerships enable relational outcomes (e.g. low staff turnover, community leadership, peer networks).

Design principles

2. Hard-wire shared governance and decisions

For government:

- Use shared-governance agreements with NFP consortia to define joint decision-rights on priorities, re-investment of savings, service redesign and market stewardship.
- Require documented, co-signed collaboration frameworks for major funded partnerships, and tie some funding to these being live, reviewed and used.

For NFPs:

- Initiate or join formal collaboration agreements with other providers, clearly describing how you will share data, risks, improvement work and decisions – then bring this as a ready-made asset to government.
- Ensure boards understand and support shared governance roles (e.g. board-to-board protocols, conflict-of-interest handling, joint oversight of shared outcomes).

Design principles

3. Commission for learning, not just delivery

For government:

- Build structured learning cycles into funding: joint quarterly learning sessions, shared improvement plans, and small 'test and learn' budgets inside larger contracts.
- Allow some flexibility for NFPs to shift activities within an agreed outcomes envelope, with proportionate reporting focused on learning, not just compliance.

For NFPs:

- Come to the table with clear proposals for shared learning infrastructure (common outcomes measures, communities of practice, evaluation partnerships).
- Offer to transparently share failures and adaptations, in exchange for explicit psychological safety and proportionate performance management.

Design principles

4. Align procurement and performance with the relational intent

For government:

- Use longer-term agreements and alliance/consortia models where appropriate; avoid routine re-tendering that disrupts relationships and community trust.
- Balance hard outcome metrics with indicators of relational quality (continuity, cultural safety, user experience, collaboration behaviours) and avoid incentives that pit partners against each other.

For NFPs:

- Demonstrate how long-term, relational approaches deliver better risk management and outcomes than purely price-driven competition.
- Negotiate performance frameworks that include shared outcomes and collaborative behaviours, not just organisational throughput.

Key risks that may need to be mitigated

1. Perceived loss of control or blurred accountability

Risk: Agencies and ministers may fear that sharing decisions with NFPs and communities will dilute statutory accountability or slow down decisive action.

Mitigation: Use clear terms of reference and written agreements that specify decision-rights, escalation pathways and who is ultimately accountable to Parliament/the public, while still enabling joint advice and shared recommendations.

2. Complexity and transaction costs of governance

Risk: Multi-partner structures can become unwieldy, time-consuming and confusing, especially when roles, agendas and information flows are not well-designed.

Mitigation: Keep structures as simple as possible, invest early in design support and facilitation, standardise templates and processes, and regularly review and prune committees and reporting to ensure they are 'light but effective'.

Key risks that may need to be mitigated

3. Probity, conflict-of-interest and shared-risk concerns

Risk: Joint decision-making with delivery partners can raise questions about conflicts of interest, perceived favoritism, and how shared risks (financial, performance, reputational) will be managed.

Mitigation: Embed probity, conflict-of-interest and shared-risk protocols into the partnership agreement from the outset, including transparent documentation of decisions, independent oversight where needed, and agreed exit/renegotiation clauses.

In summary:

The move to relational contracting is about shifting from short-term, transactional funding to longer-term, trust-based partnerships that support joint problem-solving and adaptation over time.

Remember, contracts in this model are tools to steward shared outcomes and relationships, not just instruments to buy discrete activities at the lowest price.

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