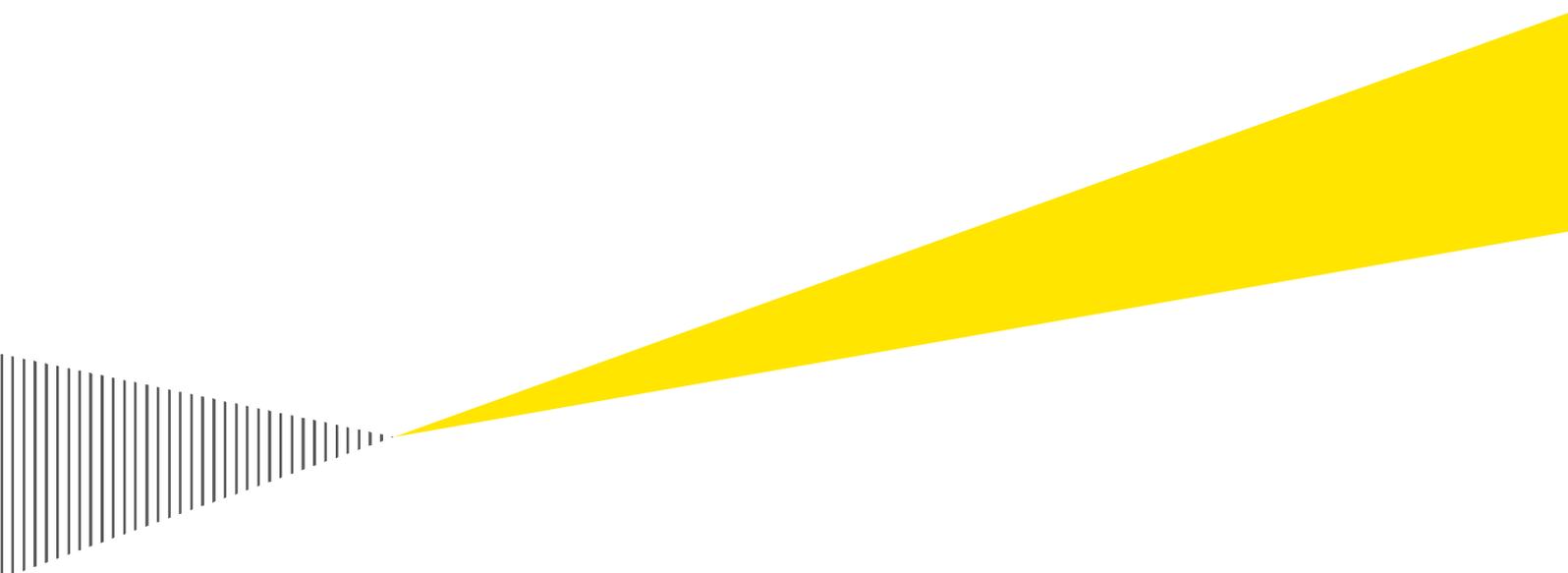


The Contribution of NSW Community Service Organisations

Council of Social Service of New South Wales

December 2015



EY

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Contents

1.	Context	1
2.	Research Approach.....	2
3.	Research Findings.....	3
4.	Recommendations	5
5.	Case study 1: Local Multiplier 3 methodology.....	6
6.	Case study 2: Network Analysis methodology.....	7
7.	Case study 3: In-kind Analysis methodology	8

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1. Context

Traditional economic valuations take an input-output approach and engage only primary stakeholders, typically focusing on the financial transactions between producers and customers and the generation of profit for external shareholders. For not-for-profit organisations these approaches overlook significant non-financial resources such as volunteers and the creation of broader economic and social value for a wider set of stakeholders such as local communities. These non-financial resources and broader value creation are particularly important for local community service organisations (CSOs) that are embedded in their communities and recognised as fulfilling important roles relating to community development, resilience and wellbeing.

Similarly, non-financial resources and broader value creation do not feature in evaluation criteria used for traditional government procurement activities which typically focus on unit costs and value for money. However there is increasing recognition of the significance of this broader value with greater interest in social procurement – “*the generation of social value through purchasing and procurement processes*” – which in the United Kingdom is now enshrined in legislation through the Public Services (Social Value) Act.

At both Federal and State government levels, there is an ongoing process of public service reform including devolving the delivery of community and human service programs to non-government organisations. Public service reform, whilst offering significant opportunities for CSOs, creates uncertainty for local CSOs. This is due to a perceived risk that government’s focus on value for money, streamlined procurement and state-wide delivery mechanisms may favour larger organisations and overlook the broader value local CSOs create.

This research commissioned by the Council of Social Services New South Wales (NCOSS) investigated the broader value that local community service organisations (CSOs) contribute to their local communities and support NCOSS and its members in developing an evidence base for this broader value creation.

2. Research Approach

This research comprised the application of three innovative methodologies formulated by EY for measuring broader value with each methodology tested through a case study with an NCOSS member organisation from three different regions.

Methodology	Region	NCOSS Member
Local Multiplier 3 ¹	Northern Rivers	Northern Rivers Social Development Council (NRSDC)
Network Analysis	Western Sydney	Western Sydney Community Forum (WSCF)
In-kind Analysis	Riverina Murray	Intereach

¹Derived from the New Economics Foundation

3. Research Findings

The overall findings of the three case studies demonstrate that local CSOs contribute significant broader value to their communities than is captured through traditional economic valuation methodologies:

1. Local CSOs contribute to local economies through hiring local staff and purchasing goods and services from local suppliers - as evidenced by application of the Local Multiplier 3 methodology.
 - ▶ NRSDC was estimated to contribute an additional 46% in value through enabling 92 cents for every dollar of grant, contributions or operating profit to remain within the local economy
 - ▶ In terms of employment, NRSDC supports 28 full-time equivalent (FTE) jobs annually and contributes \$95 thousand directly to the Australian economy on a value added-basis per each FTE job supported
2. Networks of local CSOs can increase their collective productivity and effectiveness by sharing relevant information, participating in joint capacity building activities and collaborating more generally - as evidenced by application of the Network Analysis methodology.
 - ▶ WSCF was estimated to contribute an additional 24% in value through its local networks
 - ▶ In terms of employment, WSCF supports 9 full-time equivalent FTE jobs annually and contributes \$128 thousand directly to the Australian economy on a value added-basis per each FTE job supported
3. Local CSOs contribute to the resilience and wellbeing of the local community by providing community infrastructure such as meeting spaces and rooms for local CSOs and community groups - as evidenced by application of the In kind Analysis methodology.
 - ▶ Intereach was estimated to contribute an additional 36% in value through the in-kind provision of assets and knowledge of the local community
 - ▶ In terms of employment, Intereach supports 80 FTE jobs annually and contributes \$74 thousand directly to the Australian economy on a value added-basis per each FTE job supported

Further information on each methodology and details of the broader value creation can be found in the case studies.

Each methodology has its own strengths and weaknesses and may be applicable to a certain type of local CSO. The Local Multiplier 3 is particularly relevant to local CSOs that have larger workforces, Network Analysis is particularly relevant to peak bodies and organisation networks, and In Kind analysis for local CSOs that provide community infrastructure. For some local CSOs all three methodologies may be applicable however it is important to consider the risk of double counting.

The value created by NRSDC, WSCF and Intereach

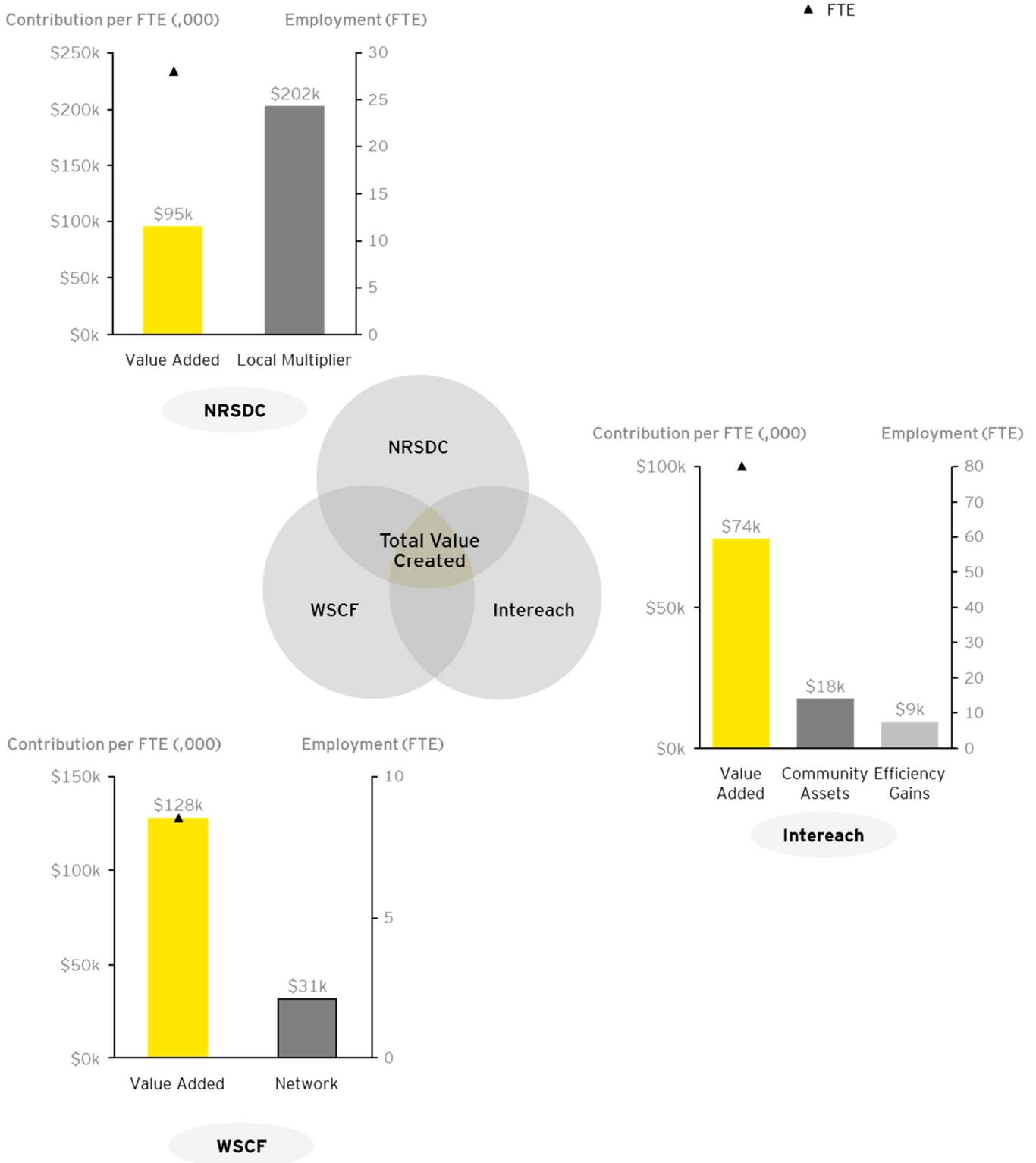


Figure 1 Summary of results of case study analyses

4. Recommendations

The findings from this research provide preliminary evidence of the broader value created by local CSOs which can be utilised in response to government procurement activities. In order to further articulate and quantify this broader value the authors recommend that the three methodologies are utilised by other members to build a more complete and robust picture.

The authors recommend the following four key steps to support local CSOs in understanding, communicating and realising the broader value they create and thus evidencing their embeddedness in local communities.

1. Facilitate the wider use of the three methodologies by local CSOs
 - ▶ Develop templates for each methodology
 - ▶ Provide guidance on which methodology is most applicable to different types of local CSO
 - ▶ Standardise data systems and data collection processes
 - ▶ Build capacity of NCOSS members to measure value creation
 - ▶ Further testing with a diverse range of NCOSS members
 - ▶ Establish a user group to share learning
 - ▶ Communicate the total value creation to key stakeholders
2. Encourage NCOSS members to report this broader value in funding bids, annual reports, websites and in newsletters, and communications with stakeholders.
3. Advocate for the inclusion of criteria that reflect this broader value in government procurement activities. Explore the interest in and potential for a "Social Value Act in NSW and Commonwealth governments.
4. Commission research to compare the broader value creation of local CSOs with competitors including non-local CSOs and for-profit service providers to further build the evidence base and support members and policy advocacy

5. Case study 1: Local Multiplier 3 methodology

Local Multiplier 3 (LM3) is a methodology that measures the indirect contribution of an organisation to a local area by tracking where money is spent within the local area. The methodology comprises four key steps:

1. Definition of the boundary of the local area
2. Assessment of total income, including all grants, contributions, and operating income
3. Assessment of local spend for employees and suppliers
4. Survey of employees and suppliers to estimate the proportion of their spend that also occurs within the local area

The contribution is then calculated as the total local spend by the organisation, plus the total re-spend in the local area by employees and suppliers, divided by the organisation's total income.

5.1 Northern Rivers Social Development Council

Northern Rivers Social Development Council (NRSDC) is a community-based not-for-profit organisation that promotes fairness and social inclusion in the Northern Rivers region of NSW. NRSDC has an annual income of approximately \$4 million.

NRSDC is embedded in the Northern Rivers Region which leads to significant value creation being captured by the local economy. NRSDC contributes significant value through a local multiplier effect by retaining a workforce based in the region it serves, and procuring services from local suppliers. This proximity increases the re-spend and flow-on benefits to the local economy.

Local Multiplier 3

Locally based organisations support local economies through hiring local staff and purchasing goods and services from local suppliers.

Using LM3, NRSDC was estimated to contribute an additional 46% in value through enabling 92 cents for every dollar of grant, contributions or operating profit to remain within the local economy through spending on employees, suppliers and operations.

This is based on the findings and assumptions that:

- ▶ 63 per cent of NRSDCs total supplier spend is local
- ▶ NRSDC employees spend 66 per cent of their post-tax income locally
- ▶ Desktop research revealed suppliers typically spend approximately 59 per cent of their income locally

6. Case study 2: Network Analysis methodology

Network analysis is a methodology that maps and measures relationships between organisations. It is used to identify linkages between organisations which act to increase benefits beyond the scale of an organisation operating in isolation. This highlights how organisations are connected, an assessment of the strength of the linkages can be made, and then financial proxy applied. The methodology comprises four key steps:

1. Identifying the relationships between the organisation and its stakeholders
2. Extracting or collecting data on relationships between the organisation and its key stakeholders
3. Developing a matrix of the relationships, and estimating the strength of those relationships
4. Applying a financial proxy for the strength of each relationship to represent the value of being connected. This could include ease of access to information that might otherwise require significant time to acquire.
5. Modelling the matrix using a suitable tool to provide a visual representation of the organisation's network. NodeXL is a freely available tool that can be used for this purpose.

6.1 Western Sydney Community Forum

Western Sydney Community Forum (WSCF) works to build strong, organised communities by bridging the divide between communities and policymakers at the local, regional, State and Federal levels. WSCF has an annual income of approximately \$1.3 million.

As a peak body, WSCF facilitates the capacity of CSOs in the local area. In addition to providing training opportunities, WSCF's activities in providing information and opportunities for CSOs to network is significant. The Network Analysis approach highlighted the success of WSCF in bringing the local CSOs together and providing support collectively.

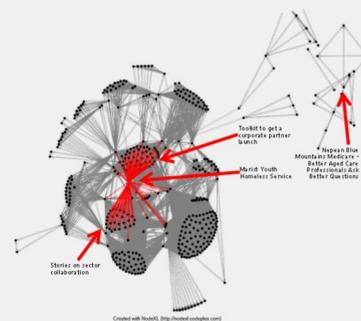
Network Analysis

Local networks for CSOs are able to share relevant information and collaborate through further knowledge sharing, in addition to greater project collaboration and funding opportunities (outside of the scope of this project)

Using Network Analysis, WSCF was estimated to contribute an additional 24% in value through local networks.

This is based on WSCF data on its events and membership, including:

- ▶ Training sessions creating networks of participants within and between training sessions
- ▶ Participants growing networks through attending multiple training session
- ▶ Training provided at lower cost than otherwise accessible
- ▶ Networking and profile provided through sector awards
- ▶ Provision of relevant information for the sector



7. Case study 3: In-kind Analysis methodology

In-kind analysis is a methodology designed to measure valuable transfers that occur between an organisation and the community through subsidy or for little or no money within a local area. These non-financial transactions will not generally appear in financial statements and yet may represent a significant contribution a CSO makes to a local region.

The measurement of in-kind contributions is dependent on the type of contribution provided. It can include provision of access to facilities, skilled or unskilled volunteering, and provision of services. The value of these services can be ascertained through considering alternatives in the community, such as other facilities that may be rented, and the difference in cost between the CSO's facilities and other for-profit facilities.

An organisation embedded in a community will also achieve economic value through the understanding employees develop, which may result in increased quality or efficiency of service. This can be assessed through surveying employees and gaining an estimate of time saved in delivery of services as a result of local knowledge.

7.1 Case study: Intereach

Intereach works together with children, families, older people, carers and people with disabilities to provide services, support and information throughout the Riverina Murray region of NSW. Intereach has an annual income of approximately \$10 million.

Intereach plays a key role in the local community to support community wellbeing. The research has identified this as including provision of facilities, greater efficiency of service, and also economic resilience and building skills for the volunteering sector.

In-kind Analysis

CSOs that provide the use of facilities for small community organisations and groups support the wellbeing and vibrancy of the local community.

Locally embedded organisations achieve efficiencies in service delivery through having in-depth understanding of the local pressures and needs of individuals and groups.

Local CSOs support the resilience of regional economies through providing diversified employment opportunities, particularly in difficult times for the agricultural sector.

Using In-kind analysis, Intereach was estimated to contribute an additional 36 per cent in value through the in-kind provision of assets and knowledge of the local community.

This is based on the provision of assets, including:

- ▶ Hosting a significant number of Intereach's community services at the Deniliquin Neighbourhood Centre
- ▶ Discounts provided to small community groups: those who receive no funding, and those which serve the financially and socially disadvantaged

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