

**NCOSS Submission to the NSW Health
Grants Management Improvement
Taskforce Discussion Paper on the
Grants Management Improvement Program
(GMIP)**



27 September 2012

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NCOSS Submission to GMIP

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Executive Summary

The Council of Social Service of NSW (NCOSS) submission to the Grants Management Improvement Taskforce focuses on the funding policy framework for the NSW Health NGO Program. We argue that NSW Health must take a strategic approach to developing the funding policy, and that it must not undermine the broad community outcomes provided by the community sector.

NCOSS supports a strong, dynamic and effective non-government community sector because of its capabilities to address disadvantage and improve social justice outcomes. The sector has this capability because it is different from government. It has the flexibility and innovation to respond to local community needs. It provides services that governments might not otherwise provide. It works within communities to build relationships and trust that are necessary to support people.

The Health NGO funding policy framework must support and enhance the outcomes provided by the community sector. It needs to ensure that it does not compromise or constrain the sector's unique characteristics that enable it to improve the health and well-being of vulnerable populations and the community.

NCOSS contends that NSW Health must take a strategic approach to developing the Health NGO funding policy framework. Effective funding policy needs to be based upon a clearly defined program framework. This requires consideration of the program objectives and the priority services needed to meet those objectives. Only when the broader strategic questions about 'what' and 'why' particular services should be procured can the more specific questions of 'how' be determined.

A strategic approach to funding policy involves consideration of how the program can deliver public value long-term rather than produce short-term cost savings. Funding programs are a means to an end, rather than an end in themselves. Decisions about funding require consideration of how best to achieve the desired health outcomes at the best value for money, not just at the lowest cost.

Broadly, this requires a funding framework that:

- Recognises the wider community benefit or 'spill over' effects that community sector organisations contribute, such as social capital and inclusion.
- Provides a flexible, case-by-case approach to the selection of funding models that are appropriate to the characteristics and circumstances of the service being delivered and the desired outcomes.
- Funds the full cost of services
- Procurement practices that provide flexibility, independence and a guarantee of service, including outcomes-based service specifications and longer-term funding contracts.
- Streamlines monitoring and evaluation processes that are proportional to the size and risk of the funding.

The funding framework must be appropriately implemented and adequately resourced to be sustainable and effective. The Productivity Commission identified the need for sound institutional arrangements and the same requirements for community sector organisations as for other businesses, including:

- Sound and supportive regulatory system
- Access to resources (capital and labour)

- Good relationships with stakeholders

NCOSS believes that the funding policy framework must be accompanied by enabling systems and support. This includes strategic planning, collaborative partnerships, procurement and contract management skills, information and data management systems, and capacity building for organisation to take advantage of different funding models. These enablers may require upfront investment to deliver long-term cost savings through more efficient and effective procurement practices and appropriate service delivery.

NCOSS is concerned that the Government's short-term cost-saving imperatives may compromise the development of an effective funding policy. While the Taskforce remit is to improve the delivery and management of the NGO Program, we believe that this is being conflated with the mandated budget efficiency savings. A cheap health service is not necessarily the same as an effective health service. Priorities driven by short-term cost cutting rather than value-adding can lead to longer term costs.

NCOSS believes that a more efficient approach to improve grants administration and management than the current GMIP review would be to implement the recommendations from the 2010 NSW Health NGO Review. The 2010 Review made comprehensive recommendations to improve the efficiency and effectiveness of the Health NGO Program. The final report had strong buy-in from the sector due to the consultative and collaborative review process. We believe that the review recommendations should be implemented in cooperation with the Health NGO Advisory Committee.

List of Recommendations

1. *NSW Health clearly identifies the objectives of the Grants Management Improvement Program and separates improvements to Health NGO Program from the government's mandated budget savings.*
2. *NSW Health implements the recommendations from the NSW Health NGO Program Review Recommendations Report 2010 in collaboration with the Health NGO Advisory Committee.*
3. *NSW Health maintains overall levels of services targeted to vulnerable groups as part of any funding changes in recognition of existing health inequities and the relative levels of need.*
4. *NSW Health formally recognises the wider contribution of the community sector to community well-being beyond direct service delivery.*
5. *NSW Health NGO funding policy framework supports and strengthens the value-add characteristics of the community sector through appropriate funding models and practice, adequate resourcing and collaborative relationships.*
6. *NSW Health leads discussions with the Government on implementing a Health in All Policies approach in NSW.*
7. *Central planning processes for determining strategic priorities and service procurement are established at the state and district levels, and are inclusive of community sector organisation.*
8. *NSW Health, in conjunction with the sector, develops the Health NGO funding policy framework in consideration of the objectives of the Health NGO Program, and the services needed to deliver on those objectives.*
9. *NSW Health NGO Program adopts the objectives of the 2008 draft NGO Policy Framework, with the addition of 'reduce health inequities experienced by vulnerable populations'.*
10. *The objective of the NSW Health NGO funding policy should be to provide the best value for money outcomes for the health and well-being of the people of NSW. Public value considerations must include the wider community benefits generated by NGOs.*
11. *NSW Health NGO funding framework adopts the funding and working relationship principles in outlined Working Together for NSW, with addition of flexibility and consumer-centred approaches.*
12. *NSW Health NGO funding framework adopts a flexible approach to the selection of funding models and procurement processes.*
13. *Consideration and selection of the appropriate funding model must be based on the nature of the outcomes sought, characteristics of clients, and nature of the market on a case-by-case basis. It must also consider the relevant spill-over benefits generated by community sector organisations and the desirability of enhancing the unique contribution of the sector.*
14. *Purchase of service contracting not be the default or prescribed funding model in recognition of the inefficiencies and costs associated with its inappropriate use.*
15. *NSW Health funds the full cost of services provided by community sector organisations that it would otherwise provide, including services to improve health outcomes for vulnerable populations.*
16. *Funding levels are calculated on a full and fair cost recovery basis that includes an assessment of direct and indirect costs reasonably associated with the provision of the service. This must include employee and operational expenses, infrastructure and administrative overheads, governance and accountability systems and partnership costs.*
17. *Annual indexation must be built into funding and properly account for real cost increases.*
18. *In relation to competitive tender:*

- a. *Where expressions of interest are pursued, market rules need to be fair and transparent.*
 - b. *Good communication is required from government about expectations of providers.*
 - c. *A fair process should also include the development of selection criteria that give small/medium sized organisations the opportunity to be successful, and recognising their particular expertise.*
 - d. *Existing selection criteria tend to favour large organisations because of the weighting towards governance and finance. There is no opportunity afforded in the selection criteria to build on an organisation's history and demonstrated commitment in a local area or region; to value existing relationships / networks / community trust; or to cost some of the extras that local organisations bring (volunteers; existing venues and services; community engagement). Future EOI processes should include scope for these assets to be not just included but also counted.*
19. *Service requirements are specified in terms of outcomes.*
 20. *Contract size must be determined on a case-by-case basis with reference to the service, market characteristics and the need to ensure effective competition with participation by a range of providers.*
 21. *Contract periods are based on the time required to deliver on the agreed outcomes rather than having arbitrary or standard contract periods. The contract length must take into account continuity and sustainability of service provision for clients.*
 22. *Health NGO funding policy and practice reduces red tape and streamlines procurement processes at agency and cross-government levels.*
 23. *The funding policy framework includes a proportionate, risk-based performance monitoring and evaluation framework as recommended by the NSW Health NGO Review (Recommendation 2.1) that aligns with current NSW Government guidelines.*
 24. *All funding contracts and agreements include service and program evaluation requirements and associated funding.*
 25. *NSW Health adequately resources the systems and supports for the NGO funding policy framework that are required to deliver an efficient, effective and sustainable Health NGO program. This includes procurement and relationships management capabilities, information and data management systems, and capacity building.*
 26. *NSW Health implements recommendation of the 2010 Health NGO Review (Recommendation 1.3) to develop a centralised web based NGO application and data management ICT system.*
 27. *NSW Health public servants who manage funding processes are trained and supported in procurement, including contract management and relationship management skills, and with understanding community sector organisations.*
 28. *The NSW Health NGO Program includes a funding component for social innovation.*
 29. *The NSW Health NGO Program includes adequate funding for sector capacity building initiatives.*
 30. *NSW Health maintains its funding for peak organisations to provide the functions agreed in the 2007 Service Outcomes for Peak Bodies. Any additional roles associated with new funding arrangements must be negotiated with the peaks and must not compromise their independence.*
 31. *NSW Health clarifies the nature of its relationship with the sector and, at a minimum, proactively builds a cooperative funding relationship.*
 32. *NSW Government and the sector explore options for a new compact to develop policy and programs for vulnerable people and communities, such as the Western Australia Partnership Forum.*
 33. *The role of the NGO Advisory Committee is expanded to include a strategic planning function based on a social determinants of health approach. (N.B. Discussed further under strategic planning).*

34. The NGO Advisory Committee work plan outlines clear responsibilities, deliverables, and timeframes for agreed action items and is underpinned by a performance monitoring and evaluation framework that includes departmental accountabilities

About NCOSS

As the peak body for the community services sector in NSW, NCOSS works with our members, the sector, the NSW Government and other relevant agencies on current and emerging social, systemic and operational issues.

Our vision is for a society where there is social and economic equity, based on co-operation, participation, sustainability and respect.

We provide independent and informed policy development, advice and review and play a key coordination and leadership role for the community services sector.

Introduction

The Council of Social Service of NSW (NCOSS) makes this submission to the NSW Health Grants Management Improvement Taskforce in response to the review and discussion paper on the management and delivery of NSW Health NGO Program.

NCOSS has long advocated for an improved policy and process for funding community sector organisations. In the NCOSS State Election Platform, *Vote 1 Fairness in NSW*, we recommended a sensible and whole of government funding policy for the community sector.¹ We have also made similar submissions to the Department of Human Services and the recent Legislative Assembly Committee on Community Services' Outsourcing Inquiry.

Good funding policy and practices have the capacity to enhance outcomes for the people and communities of NSW, assist government to achieve its social policy objectives, and strengthen the capacity of non-government organisations to deliver high quality services to meet community needs. Conversely, badly designed and implemented funding policy can lead to increased costs, inefficiencies and poor outcomes for individuals, the sector, government and the community.

NCOSS believes that the NSW Health NGO funding policy must be developed within a clearly defined program framework. This requires consideration of the program objectives and the services required to meet those objectives. Only when the broader policy and program questions about the 'what' and the 'why' have been determined can the more specific questions of 'how' particular services should be procured can be resolved.

The funding policy framework must support and enhance the contribution of the sector, rather than constrain or negate it. Inappropriate funding models, inadequate funding, prescriptive contract specifications and overly burdensome monitoring and reporting requirements can stifle the very characteristics that give NGOs their comparative advantage.

The funding policy framework needs to be accompanied by measures that support its effective implementation and operation. To procure efficient health services requires a sustainable sector supported by sound institutional arrangements. The Productivity Commission clearly argued that like all businesses, NGOs need sound and supportive regulatory systems, access to resources (capital and labour) and good relations with stakeholders.

In making this submission we have focused on the guiding principles and enabling factors to support an effective program funding policy framework. We argue that NSW Health must take a strategic approach to funding decisions and that it must support the contribution of the sector.

This submission begins by clarifying the relevant funding terminology. It makes preliminary comments on the GMIP and then discusses the value of the community sector. It then addresses the key elements of a funding policy framework and the enabling systems to support the effective implementation of the framework.

¹ NCOSS 2011, *Vote 1 Fairness in NSW* p51

Terminologies

NCOSS notes that funding terminology is not always clearly understood or used consistently. For instance, terms such as contracts and service agreements are used interchangeably although they refer to different things. For clarity, we provide the following definitions for the terms used in this submission based on the Productivity Commission (2010) and the Industry Commission (1996).

Competitive tendering and contracting (CTC) = a form of purchase of service contracting. The two defining elements of CTC are the split between the service purchaser and the provider of services, and the element of market contestability.

Competitive tendering = the process of selecting a preferred supplier from a range of organisations by seeking offers (tenders) and evaluating these on the basis of one or more selection criteria

Contestability = The level of potential competition based on the degree of ease with which an organisation can enter or leave a market.

Contracts = a legal instrument setting out the terms and conditions under which services are purchased by government from an organisation. Although the term 'contract' is often used to refer to both the instrument for tender and grant procurement, it is more correctly applied to tenders, whereas service agreements relate to grant funding.

Funding models = the mechanism government uses to engage with the service provider. The Productivity Commission identifies four main models: purchase of service contracting, client directed or 'individualised funding' model, joint ventures, and grants.

Funding policy = guiding framework for determining what services will be funded and by what means.

Grants = Funding for a specified purpose directed at achieving goals and objectives consistent with government policy. A grant is usually distinguished from a contract for the purchase of services.

Non-government community sector ('sector') = Collective description for non-government organisations (NGOs) that undertake service delivery, community development, social justice and advocacy across a range of areas including health, housing, homelessness, employment and education, disability, aged care, services for children, young people and families, Aboriginal affairs, multicultural affairs, and justice. Organisations are diverse in size and scale, ranging from small voluntary groups to large national organisations.

Other terms that are also used include 'NGO' (non-government organisation), not-for-profit (NFP), third sector, voluntary sector, and civil society.

Outsourcing = an arrangement whereby government engages an external organisation to provide a service that was previously provided directly by government. When this process is specifically undertaken through a contract, it is referred to as 'contracting out'.

Procurement = the overarching process and activities by which services are purchased. It includes processes such as tender, prequalification panels and grant applications.

Purchase of service contracting = the process and mechanism whereby government engages an organisation to deliver a service in exchange for money. Examples of this model include the competitive tender and contract (CTC) and negotiated tender models.

Service Agreements = a legal instrument setting out the terms and conditions under which a funding grant is provided by government to an organisation to provide services.

Preliminary comments on the Grants Management Improvement Program (GMIP)

Review objectives

NCOSS is supportive of improving the delivery and management of the grant program. However, we do not believe that this is the primary purpose of the current review. NCOSS is concerned that the current GMIP review is conflating reform of the Health NGO Program with the NSW Government's budget savings priorities that will lead to longer-term costs for the sector, government and the community.

If NSW Health's intention is to improve the NGO grants management and administration, NCOSS recommends that NSW Health implement the *NSW Health NGO Program Review Recommendations Report 2010*. The NGO sector broadly supported the review recommendations and they were formally endorsed by NSW Health.

If the intention is to implement the NSW Government's program efficiency savings, as previously stated by NSW Health senior representatives, then this must be clearly identified and delineated from improving the efficiency and effectiveness of the Health NGO Program.

Improving the management and administration of the Health NGO program is not analogous with achieving program savings. An efficient and effective health program is one that delivers the *best value for money* outcomes for the community within available resources. This means cost-effective services, not necessarily the cheapest services. The Health NGO Program also requires upfront resourcing and capacity building support to transition to the new funding framework in order to be more cost effective in the long-term.

NCOSS is concerned that the current budget efficiency savings will result in reduced levels of service for low income and disadvantaged people. NCOSS welcomes new market opportunities for the community sector. However, any new funding must not be in lieu of funding targeted to meet the needs of vulnerable populations. Cutting funding from the existing Health NGO Program will result in a reduction of health services for those people who generally suffer the greatest health inequities. This is neither fair nor good long-term economic policy.

Recommendation:

NSW Health clearly identifies the objectives of the Grants Management Improvement Program and separates improvements to Health NGO Program from the government's mandated budget savings.

NSW Health implements the recommendations from the NSW Health NGO Program Review Recommendations Report 2010 in collaboration with the Health NGO Advisory Committee.

NSW Health maintains overall levels of services targeted to vulnerable groups as part of any funding changes in recognition of existing health inequities and the relative levels of need.

Review process

NCOSS does not believe that the current review process accords with the Minister for Health's CORE values. The very short GMIP consultation timeframes and the release of the discussion paper eight days before the close of submissions does not reflect a relationship based on collaboration or respect. We do not believe that the discussion paper was open or transparent about the cost-saving imperatives that are also driving the current review.

NCOSS notes that the 2010 NSW Health NGO Review was a positive example of open, respectful collaboration and engagement with the sector. We urge NSW Health to demonstrate these CORE values in the next stages of the GMIP development through open, transparent information, adequate consultation timeframes and more collaborative engagement with the sector.

Value of the non-government community sector ('sector')

Contribution of the sector

A strong, diverse non-government community sector ('sector') is essential to community health and well-being. The sector provides a wide range of services that respond to and meet the changing and diverse needs of local communities and priority population groups. The NSW Government recognises that community sector organisations play an essential role in the planning and delivery of human services in NSW.²

The sector plays a critical role in addressing inequities and improving outcomes for the most disadvantaged members of our community. They provide alternative services for marginalised people who may not otherwise access mainstream services and provide specialised responses to meet the needs of specific population groups. Their flexible, innovative structures and client-focused ethic and equities base make them well suited to respond to the needs of vulnerable groups. These services are crucial to improving equity, addressing disadvantage and promoting a more inclusive society.

The sector's role in service delivery extends beyond direct provision. It includes developing innovative models, research, policy development, individual and systems advocacy, capacity building, and the provision of information and advice to individuals, members, communities and government.

Community sector organisations provide a benefit to the community through their services but also the processes and the framework they work within. The way that organisations are organised, engage people, make decisions, and go about delivering services reflect and contribute to social capital. Social capital is the relationships, understandings and social conventions that form an important part of the mediating environment that shapes economic and social opportunities.³ This is critical to social inclusion and developing a fairer society.

The Productivity Commission recognised that not for profit organisations contribute to community wellbeing through:⁴

- *Service delivery* either to people outside the organisation or to members.
- *Exerting influence* and promoting change on economic, social, cultural and environmental issues.
- *Connecting the community* and expanding the social networks available to individuals.
- *Enhancing the community endowment* by investing in skills, knowledge and physical, social, cultural and environmental assets for the benefit of future generations.

ACOSS has identified ten features and benefits of a strong, diverse and efficient not for profit community services sector that support the Productivity Commission's findings on the contribution of the sector. These features are listed at Appendix 2.

The NSW Forum on Non Government Agencies (FONGA) has outlined the contribution of the NSW non-government community sector, and the principles and values that underpin this approach in the NSW Community Sector Charter 2011 (attached).

² NSW Department of Premier and Cabinet (2009) *NGO Support Stocktake - Developing and supporting human service non-government organisations in NSW: A stocktake of current activities*, NSW Government, Sydney.

³ PC, P17

⁴ PC, p32

Contribution to NSW Government health priorities

The Health NGO Program supports the Government's goal to keep people healthy and out of hospital (NSW 2021, Goal 11). Community sector organisations provide primary health and continuing care in the community based on the social determinants of health. This emphasises preventing illness and promoting well-being in the community by addressing the underlying causes of poor health.

Community sector organisations provide services that are a vital component of the public health system. They play an important role in improving access to services by marginalised groups, identifying and addressing gaps in available services and improving health equity. This leads to improved population health and better outcomes for the community in terms of increased economic and social participation.

Funding policy that supports the sector

NCOSS believes that NSW Health must recognise and support the broad contribution that community sector organisations make to community well-being through good funding policy and practice, adequate resourcing and collaborative relationships. It is critical that the 'bear hug' of government funding does not constrain the very benefits provided by the sector that led government to fund it in the first place.

"...governments should ensure their engagement with community organisations does not unduly undermine the mission of these organisations, their reach into the community or impede community participation in decision making processes." (Productivity Commission 2010, p345)

Recommendation:

NSW Health formally recognises the wider contribution of the community sector to community well-being beyond direct service delivery.

NSW Health NGO funding policy framework supports and strengthens the value-add characteristics of the community sector through appropriate funding models and practice, adequate resourcing and collaborative relationships.

Strategic approach to funding

Whole of Government funding policy and processes

NCOSS has repeatedly called for common funding policy and practice, negotiated with and informed by the sector, across all NSW Government human service funding agencies. A sensible and 'whole of government' approach to funding and regulatory procedures will advantage both government funding agencies and the recipients by enhancing communication, reducing the administrative burden, and streamlining time and risk management.

We refer the Taskforce to previous NCOSS submissions, including: *Vote 1 Fairness in NSW*,⁵ *Submission to the DHS Procurement Policy Framework*, *Submission to the Legislative Assembly Committee on Community Services Inquiry into Outsourcing Service Delivery*, and *Working Together for NSW: Good Funding Policy and Practice Discussion Paper*.

Strategic planning

Health in All Policies

NCOSS believes that there needs to be a whole of government framework for identifying, planning, and responding to complex community needs. Health is socially determined by a range of complex and inter-related factors. Many of these determinants are beyond the health system, such as education, employment, transport and housing. Addressing these determinants to improve population health and well-being requires coordinated and coherent action across all sectors and at all levels.

Health in All Policies (HiAP) is a systematic approach to achieve inter-sectoral working on the social determinants of health. It was endorsed by World Health Organisation in 2010 *Adelaide Declaration on HiAP*. It has been successfully implemented in South Australia under the leadership of Chris Eccles. NCOSS believes that a HiAP approach could provide a platform for coordinated planning and action on health and complex social issues in NSW.

Program planning

Planning is the first principle of good funding practice.⁶ Funding decisions must be driven by strategic priorities, evidence of community need, and the type and mix of services to best meet that need. This requires vertical planning at the local, district and state-wide levels, and horizontal planning across government agencies and across LHDs. A lack of strategic planning contributes to duplication and fragmentation of services. It also leads to service gaps, such as transport for people to access health services.

We believe there needs to be a central planning process for determining state-wide strategic priorities and coordinating service procurement amongst LHDs. This must include a systematic process for meaningfully community sector involvement in planning and funding decisions.

Recommendation:

NSW Health leads discussions with the Government on implementing a Health in All Policies approach in NSW.

⁵ NCOSS 2011, *Vote 1 Fairness in NSW* p51

⁶ NSW Good Practice Guide to Grants Administration, 2010

Central planning processes for determining strategic priorities and service procurement are established at the state and district levels, and are inclusive of community sector organisation.

Clarity of purpose

NCOSS believes that clarity of purpose provides the foundations for effective funding policy and practice. A study by the Whitlam Institute and Public Interest and Advocacy Centre (PIAC) identified that successful funding practice is dependent on clear program objectives that inform the choice of funding model and specific contractual provisions.⁷

The Health NGO Program objectives and the services needed to deliver on those objectives must guide the development of the funding policy framework. It should not be driven by short-term considerations of what the sector can provide cheaper than government. The OECD has said that, '...funding decisions should not involve a mechanistic consideration of contracting out existing tasks or processes. Rather, it should be used as an opportunity to re-evaluate both the rationale for the existing tasks and the processes used to carry them out.'⁸

Recommendation:

NSW Health, in conjunction with the sector, develops the Health NGO funding policy framework in consideration of the objectives of the Health NGO Program, and the services needed to deliver on those objectives.

Health NGO Program objectives

NCOSS supports the program objectives of the draft *NSW Health NGO Policy Framework 2008*. In keeping with primary health care principles, these objectives are to:⁹

- Support models of health service delivery developed by local communities which maximise access and support community participation
- Build self reliance and responsibility for health at a personal and community level by the development of networks and self help initiatives
- Ensure a range of complementary health services which provide ease of continuity of care and efficiency in the use of local resources, and
- Assist NGOs to provide a range of priority health services.

NCOSS believes that in addition to these objectives, the Health NGO Program should include a specific objective to reduce health inequities experienced by vulnerable populations. The Health NGO Program supports community sector organisations to provide services tailored to vulnerable populations that government would otherwise not provide. As previously noted, the characteristics of the sector means that it is well placed to identify and respond to the specific and complex needs of people experiencing hardship and

⁷ Whitlam p12

⁸ Organisation for Economic Co-operation and Development (1997), Contracting out government services: Best practice guidelines and case studies, Occasional papers No.20, Paris.

⁹ Draft Health NGO Policy Framework 2008

disadvantage. The Health NGO Program therefore plays an important role in reducing inequities and improving health outcomes.

Recommendation:

NSW Health NGO Program adopts the objectives of the 2008 draft NGO Policy Framework, with the addition of 'reduce health inequities experienced by vulnerable populations'.

Funding policy framework

NCOSS believes that good funding policy and practice is a key component of a robust and effective relationship between government and the non-government community sector to deliver the best value for money outcomes for society.

We refer the Taskforce to the NCOSS 2006 Discussion Paper, *Working Together for NSW: Good Funding Policy and Practice* that outlines principles and practice to underpin good funding relationships between the NSW Government and the sector.

Objectives

NCOSS believes that the overarching aim of any government funding policy should be to achieve the best value for money outcomes for the community. The Productivity Commission notes that value for money is more than service efficiency; it is the optimal allocation of public resources. As noted above, NCOSS does not support funding decisions to deliver short-term cost saving imperatives at the expense of more sustainable long-term outcomes.

The Australian Public Service Commission argues that devolved government must deliver public value. It states that public value is a broad measure covering outcomes, the means used to deliver them as well as trust and legitimacy. It addresses issues such as equity, ethos and accountability.¹⁰ A well-designed and implemented funding policy framework can and should support the delivery of these public value outcomes.

"It is important to recognise that in relation to procurement exercises, 'value for money' is not about achieving the lowest possible purchase price. Rather, value for money is the optimum combination of 'whole of life costs', quality (fitness for purpose) and risk that meets the government's requirements. Government agencies are required to conduct a comparative analysis of all relevant costs and benefits of each proposal over the life cycle of the service. Thus, value for money assessments are not limited only to those factors that can be valued in monetary-terms or over short time frames." (Productivity Commission, 2010, p330)

Recommendation:

The objective of the NSW Health NGO funding policy should be to provide the best value for money outcomes for the health and well-being of the people of NSW. Public value considerations must include the wider community benefits generated by NGOs.

¹⁰ APSC report devolved government

Principles

NCOSS endorses the principles for the funding and working relationship that were agreed between the previous NSW Government and the Forum of Non Government Agencies (FONGA) on behalf of the sector in *Working Together for NSW*.

Principles for the funding relationship:

- **Value for money:** Obtaining the best mix of services to meet the community's needs within available funding and selecting the mix of resources that delivers the best possible outcomes to clients.
- **Fairness, Integrity and Transparency:** Ensuring that the Government funding system is and is seen to be accessible, appropriate and fair.
- **Cooperation:** Government agencies and funded organisations will work to promote a funding relationship based on reciprocity.
- **Diversity:** Embodying the recognition of diversity in the community in grants administration practice.
- **Consistency:** Funding administration procedures should be consistent within programs, across individual government agencies, across government and as funding programs evolve.
- **Coordination:** Outcomes for people and communities can be improved through better alignment of planning, program design and service delivery within and across both Government, non government organisations and local government.
- **Probity:** Funding administration must be conducted in an environment of integrity, honesty and scrutiny.

Principles for the working relationship:

- **Evidence-based approach:** Policy and program development and service delivery should be based on reliable evidence.
- **Outcomes:** Decisions should be informed by a focus on real outcomes for people and communities.
- **Accountability:** Both government agencies and funded organisations must be accountable and transparent in the way in which they spend public funds, in a manner appropriate to the level of expenditure.
- **Respect:** Both government and funded organisations must respect each other's roles and acknowledge that these roles may lead to differences of opinion around particular issues
- **Communication:** Wherever possible, government agencies and funded organisations should make open communication and consultation a priority, particularly where changes to policies, programs or services are being considered or advocated.
- **Independence:** Funded organisations are independent agencies that are responsible and accountable for their own performance and management.
- **Inclusiveness:** The Government is obliged to balance the interest of all New South Wales citizens and has a responsibility to allocate resources accordingly.

NCOSS submits the following additional principles for the funding framework:

- **Flexibility:** Funding models and procurement practices must be determined on a case-by-case basis appropriate to local circumstances. They must provide for innovation and collaboration to meet new and emerging needs.
- **Consumer-centred:** Individuals and communities health and well-being needs must be the priority consideration underpinning funding policy and practice. This includes funding appropriate, responsive and coordinated services, a guarantee of service, and involving consumers in the planning, delivery, and evaluation of services.

Recommendation

NSW Health NGO funding framework adopts the funding and working relationship principles as outlined Working Together for NSW, with addition of flexibility and consumer-centred approaches.

Models of funding

Flexible, appropriate funding models

NCOSS strongly believes that the model of funding should be determined on a flexible, case-by-case basis with the aim of achieving best value for money. The 2010 Productivity Commission report recommended a case-by-case approach to selecting the funding model that is appropriate to the service being procured and the desired outcome. The 1996 Industry Commission report also recommended a case-by-case approach, and recommended against the selection of funding models determined on the broad categorisation of services or the characteristics of those services.¹¹ Stakeholder feedback to the 2010 Health NGO Review also supported a flexible approach to funding and procurement.¹²

The Productivity Commission proposed the following criteria to determine the appropriate funding model:

- The nature of the service, including ability to identify and control quality standards
- The capabilities of the clients (or their representatives) to make an informed choice
- The availability of service providers and scope for competition and choice, and
- The risk associated with the service.¹³

NCOSS believes that selecting the right funding model also requires consideration of desired outcomes and the impact of the funding model on the sector's contribution to those outcomes. The Productivity Commission and the Australian Public Service Commission both argue that funding models must be consistent with the overarching principle of obtaining the best value for money for the community.¹⁴ This requires funders to consider any relevant indirect or wider benefits provided by the sector.¹⁵ The Productivity Commission recommended using an evidence-based approach to assess the nature, extent and relevance of these benefits on a case-by-case basis.¹⁶ A framework for measuring the contribution of the sector is at Appendix 3.

¹¹ Industry Commission p27

¹² Draft Health NGO Review Recommendation Report, p52

¹³ PC, p319

¹⁴ PC, p347

¹⁵ PC, p297

¹⁶ PC, Recommendation 12.3, p347

The assessment of funding models also requires funders to consider the potentially adverse impacts of certain funding models on the sector and their wider community benefits. The Whitlam Institute and PIAC report found that the Government's increased use of purchase of service contracting is transforming the mission and nature of the sector to a more market-based orientation. This threatens to undermine the benefits that led to government engaging community sector organisations in service delivery in the first place.

Similarly, the Productivity Commission identified that contracting has the potential to erode the comparative advantage of NGOs due to the effects of mission drift, isomorphism, separation of stakeholder roles and consequently weaker connections with communities, reduced advocacy, an association of NGOs with government, and increased government control.¹⁷ Funders must consider these potential impacts as part of the assessment and selection of appropriate funding models.

NCOSS believes that funding models must be selected to suit the characteristics and circumstances of the service being delivered and the desired outcomes. This requires a flexible approach that considers the full range of funding models according to the nature of the service, client capabilities, nature of the market and associated risks. It also requires a consideration of the benefits provided by enhancing and supporting the 'value-add' contribution of the sector.

Recommendation:

NSW Health NGO funding framework adopts a flexible approach to the selection of funding models and procurement processes.

Consideration and selection of the appropriate funding model must be based on the nature of the outcomes sought, characteristics of clients, and nature of the market on a case-by-case basis. It must also consider the relevant spill-over benefits generated by community sector organisations and the desirability of enhancing the unique contribution of the sector.

No default or preferred funding models

NCOSS believes that selection of the appropriate funding model requires consideration of all of the available models rather than a presumption in favour of any specific model. This includes consideration of renewable funding (grants), one-off or time-limited project funding, direct negotiation/allocation, individualised funding (for clients), and open or selective tenders.

NCOSS acknowledges that the current system of historical recurrent funding grants may not always be the optimal funding model. Continuing or historical grants combined with a lack of systemic, program-wide performance monitoring and evaluation makes it difficult to review and assess the suitability of current grants. Some long-standing grants may no longer reflect NSW Health priorities, community need or best practice service models. However, this does not mean that the grants system as a funding model is ineffective or invalid.

NCOSS does not support a policy presumption in favour of competitive tendering and contracting (CTC) as the default or preferred funding model. The Productivity Commission recommended against a presumption that purchase of service contracting would always be the most appropriate funding model. It recommended that competitive tendering is only used in limited circumstances where there is a clearly defined outcome and markets are genuinely contestable.¹⁸

¹⁷ PC, p306

¹⁸ PC, Recommendation 12.1, p346

Inappropriate use of CTC impacts the efficient and effective delivery of service by the sector. The Productivity Commission found that government has an over-reliance on the purchase of service contracting model and it is applying it in situations where other funding models would be more appropriate. Negative effects of CTC included reduced collaboration between organisations, stifled innovation, and limitations on the good practice knowledge base.

The 1995 Industry Commission report proposed five principles to assess whether CTC is the appropriate funding model:

- i. identifying any constraints on the choice of funding models
- ii. reviewing functions – what are the policy goals and what services are needed to deliver on those goals, and the full cost benefits of the existing methods of service delivery
- iii. identifying alternatives – identify and assess other available funding models and assess the likely net cost of the CTC process
- iv. assessing the suitability and risks of CTC – considering service specific factors, market factors and agency factors
- v. weighing the costs and benefits – make an overall assessment of the costs and benefits compared to other service delivery options.¹⁹

Recommendation:

Purchase of service contracting not be the default or prescribed funding model in recognition of the inefficiencies and costs associated with its inappropriate use.

Levels of funding

Funding transparency and clarity

NSW Health must clearly and transparently outline the extent of its funding contribution to the cost of services to allow organisations to make informed decisions about their financial future. The Productivity Commission noted that governments are often not transparent about whether they fully fund the delivery of a service or only make a contribution.²⁰ This lack of information impacts on the efficiency and effectiveness of funded activities and the achievement of funding outcomes²¹. It recommended that government should clearly articulate whether or not it is fully funding the cost of services and the extent of any partial contribution to provide all parties with a clear understanding of the funding relationship.

Recommendation:

NSW Health explicitly and transparently identifies whether they are fully funding a service or only making a contribution towards the associated costs in their funding decisions. If it is only a contribution, the extent of that contribution must be made explicit.

Funding for the full and fair costs of services

NCOSS argues that NSW Health must fund providers for the full costs inherent in delivering services. The Productivity Commission found widespread evidence of government underfunding of not for profit services.²² It estimated that governments generally fund only

¹⁹ Industry Commission p28-29

²⁰ PC, pLIX

²¹ PC, p275

²² PC, p230

70% of the cost to the sector in providing services. This is the case for many Health NGO's who are not funded for infrastructure, capacity building or wage increases and have been subject to real decreases in funding with grant indexation below inflation.

The Productivity Commission noted that partial government funding is undermining the viability of some community sector organisations. These organisations generally have limited capacity to absorb unfunded costs due to their not for profit mission, limited revenue raising capacity and constraints on service cost recovery from clients. Part funding can make it difficult for the sector to pay competitive wages to attract and retain workers, invest in technology and forward plan. This puts pressure on the quality and sustainability of service delivery.²³

Partial funding also skews the market towards larger or more resourced organisations who can afford to subsidise services from other parts of their business. This can squeeze out smaller, grass-roots organisations and reduce the level of competition and local responsiveness.

NCOSS supports the Productivity Commission recommendation that government should fully fund those services that they would otherwise provide directly as part of the social safety net or an entitlement for eligible Australians.²⁴ We believe that part of the 'social safety net' includes those services provided by community sector organisations to vulnerable populations through the Health NGO Program.

Recommendation:

NSW Health funds the full cost of services provided by community sector organisations that it would otherwise provide, including services to improve health outcomes for vulnerable populations.

Cost estimates

NCOSS contends that service costs must be calculated on the direct and indirect costs incurred by providers in association with the service.

The OECD and the Productivity Commission recommend that cost estimates cover all relevant and reasonable costs required for the service or activity. This includes direct costs such as employees and operational expenses, as well as indirect costs including overheads, staff training, mechanisms to support governance and compliance, annualised cost of capital and monitoring and evaluation.²⁵

The Whitlam Institute and PIAC report similarly argued for full cost recovery pricing to take account of the direct costs of program development and service delivery, the cost of accountability and accreditation systems, infrastructure and administrative overheads, and cost of partnership and collaboration.²⁶ It was suggested that a proper determination of *real* costs would recognise variables such as the effects of CPI, oil price, and regional variations.

NCOSS argues that at a minimum, funding level must be based on full cost recovery plus an appropriate portion of overhead and management which includes indexation. Annual indexation must be built into the funding levels to properly account for cost increases. Indexation should be based on an agreed formula and known to services well in advance of the commencement of each financial year to allow for service level planning.

²³ PC, p287

²⁴ Recommendation 11.1, p.290

²⁵ PC, p275 & 282, OECD Report, p9

²⁶ Whitlam/Piac, p23

Recommendation:

Funding levels are calculated on a full and fair cost recovery basis that includes an assessment of direct and indirect costs reasonably associated with the provision of the service. This must include employee and operational expenses, infrastructure and administrative overheads, governance and accountability systems and partnership costs.

Annual indexation must be built into funding and properly account for real cost increases.

Purchase of service contracting

Issues with implementation and use

NCOSS acknowledges that purchase of service contracting can lead to potential service efficiency gains, improved quality and accountability **when it is used appropriately and implemented effectively.**²⁷ However, there is substantial evidence that this is too often not the case, leading to significant costs and inefficiencies. The NSW Health NGO Review Report, Productivity Commission Report, PIAC and Whitlam Institute Report and NSW NGO Red Tape Reduction Report all identified issues with tender and contracting processes.

These include:²⁸

- short-term nature of service agreements and contracts
- inappropriate transfer of risk and associated costs
- tendering, contractual and reporting requirements that are disproportionate to the level of government funding and risk involved
- service agreements and contracts being used to micro manage the delivery of contracted services and probe into the management, operating methods and broader community activities of community organisations
- problems associated with the 'lead agency' or 'lead provider' funding model
- the number of service agreements and contracts

The Productivity Commission noted that these issues, "...have the potential to reduce the efficiency and effectiveness of service delivery including by distorting the efficient allocation of resources, imposing avoidable costs and reducing incentives for innovation."²⁹

Good practice funding procedures

Over the past decade, there have been numerous reviews and studies on how to improve government funding practice in NSW and nationally. NCOSS refers the Taskforce to the recommendations made by NSW Health NGO Review (Recommendation 1 & 2), Productivity Commission (Recommendation 12), and NSW NGO Red Tape Reduction Report (Section 3). NCOSS specifically notes and endorses the common set of core principles for best practice contracting developed by the Public Interest Advocacy Centre

²⁷ Industry Commission, Competitive tendering and contracting by public sector agencies, 1996

²⁸ PC, p310

²⁹ PC p342

and Whitlam Institute (Recommendation 1). These reports are included in the Reference List at Appendix 1.

NCOSS notes common good practice recommendations include:

- Adopting good practice contracting principles, including flexible, longer-term contracts based on outcomes rather than inputs
- Developing an explicit, proportional risk management framework
- Streamlining tendering, contracting and reporting arrangements
- Timely communication and good funding relationships

Competitive tendering

Drawing on the 2006 NCOSS discussion paper on good funding policy, we make the following recommendations regarding competitive tendering:

Recommendation:

In relation to competitive tender:

- *Where expressions of interest are pursued, market rules need to be fair and transparent.*
- *Good communication is required from government about expectations of providers.*
- *A fair process should also include the development of selection criteria that give small/medium sized organisations the opportunity to be successful, and recognising their particular expertise.*
- *Existing selection criteria tend to favour large organisations because of the weighting towards governance and finance. There is no opportunity afforded in the selection criteria to build on an organisation's history and demonstrated commitment in a local area or region; to value existing relationships / networks / community trust; or to cost some of the extras that local organisations bring (volunteers; existing venues and services; community engagement). Future EOI processes should include scope for these assets to be not just included but also counted.³⁰*

Service specifications

Tender and contract service specifications must be based on outcomes wherever possible. This means specifying service requirements in terms of what the required outcomes or activity is, not how it should be performed. Operational flexibility is essential for providers to innovate, respond to local needs, and maximise efficiency gains.³¹ This is approach consistent with the NSW Government's commitment to giving providers, '*...a strong and direct voice in improved patient care*' (NSW State Plan 2021, Goal 12).

Recommendation:

Service requirements are specified in terms of outcomes.

³⁰ NCOSS good funding ,p9

³¹ Organisation for Economic Co-operation and Development (1997), Contracting out government services: Best practice guidelines and case studies, Occasional papers No.20, Paris.

Contract size

Contracts must be formulated on a case-by-case basis in consideration of the nature of market and the desirability of participation by a range of providers. The 1996 Industry Commission stated that the size of the contract can discourage or even prevent some organisations from participating in the tender process. This is particularly the case for smaller, grass-roots organisations.³² This can reduce competition as well as the range and responsiveness of services.

Recommendation

Contract size must be determined on a case-by-case basis with reference to the service, market characteristics and the need to ensure effective competition with participation by a range of providers.

Contract length

NCOSS believes that the period of funding must be appropriate to the time needed to deliver on the agreed outcomes and to provide continuity of service to clients. Stakeholder feedback to the 2010 Health NGO review advocated for longer-term funding to enable more strategic planning and delivery on longer term program objectives. (*Summary of feedback to consultation*, p56)³³ This is consistent with the recommendations of the Productivity Commission.³³

There is evidence that client outcomes are not well served by changing providers every three years. The Australian Public Sector Commission recommends that contracting out services must be managed to provide continuity to consumers. This must be taken into account in determining the duration of contracts or funding agreements.

The Industry Commission identified additional considerations in relation to contract length, that include the:³⁴

- need for contractors to recoup significant sunk costs;
- desirability of continuity of client-contractor relationships, particularly in community services;
- possibility of fundamental policy changes affecting service provision; and
- need to ensure an effective level of competitive pressure.

Recommendation:

Contract periods are based on the time required to deliver on the agreed outcomes rather than having arbitrary or standard contract periods. The contract length must take into account continuity and sustainability of service provision for clients.

Streamlining funding procedures

A central focus of the 2010 Health NGO Review was reducing red tape and streamlining procurement processes. Other reviews, including the Productivity Commission, have consistently made similar recommendations. The current NSW Government and previous

³² Industry Commission 1996, p30

³³ PC, Recommendation 12.5, p347

³⁴ Industry Commission 1996, p31

NSW Governments have stated this is a priority. Unfortunately, very little progress has been made at a cross-government or agency level.

The Health NGO Review recommended:

- Making grant management processes consistent across all areas and programs
- Aligning the timing of funding cycles
- Developing a single funding and performance agreement for NGOs that provide services across different locations and programs
- Streamlining and standardising financial controls.

NCOSS' submission to the outsourcing inquiry included the following recommendations on funding procedures:³⁵

- Use of 'pre-qualification', accreditation or registration processes can reduce the need to provide organisational and governance details on every occasion, allowing the actual funding or procurement process to focus on the specifics of service delivery
- Funding or procurement procedures must take into account other reporting and organisational requirements that might affect the capacity to prepare and submit tenders (e.g. end of financial year audits)
- The need for clear, consistent and ongoing communication, including about the timeframes involved
- There needs to be recognition that long processes, especially without clear timelines, or delays in decisions can significantly affect NGOs capacity to retain staff, plan, budget etc. This should be taken into account in determining the process and timelines and requires good communication and support.

Recommendation:

Health NGO funding policy and practice reduces red tape and streamlines procurement processes at agency and cross-government levels.

Performance monitoring, reporting and evaluation

Monitoring and evaluation

NCOSS believes that the sector must and should be accountable for the services they deliver to clients, communities and to its funders. This is about ethical and best practice, not just regulatory requirements. Effective performance management is critical to ensure accountability and foster service improvement. Strengthening accountabilities and improving the performance monitoring and service evaluation of the Health NGO Program was a key recommendation of the 2010 Health NGO Review (Recommendation 2).

NCOSS does not oppose probity, accountability and compliance measures. However, they need to be:

- evidence-based (do they work to achieve the benefit/outcome sought?)
- based on a risk management approach (do the costs in time and resources justify the regulation given the likelihood and severity of the risk?)
- proportionate (sufficient to address the issue without placing onerous requirements on those regulated).

³⁵ NCOSS submission to outsourcing inquiry, p10

The Australian Public Sector Commission identified that overly complex or poorly tailored control mechanisms can have perverse impacts, including:³⁶

- overly onerous reporting requirements and red tape which hamper provider efficiency
- unnecessary administrative burdens being imposed on service providers, recipients and communities arising from duplication between departments in joint funding arrangements with separate reporting of their individual accountability requirements
- problems for bodies relying on multiple funding sources for their viability (with different contracts and conditions, funding cycles and reporting requirements)
- the relatively small exposure to risk in small grants is not recognised in the way grants are treated (i.e. similar reporting frequency and large numbers of performance indicators against which data has to be collected)
- requirement for annual applications for programs that continue year after year even where there is little change in the funding organisation's circumstances or risk profile
- performance indicators not being well-matched to funded activity complex contractual and other rules constraining providers limiting their ability to exercise judgement in working effectively with disadvantaged people
- an overly rigid compliance paradigm with unthinking adoption and application of standard procedures and requirements stifling innovation and a collaborative approach.

NCOSS broadly supports the risk-based approach to funding and performance management outlined in the 2010 NSW Health NGO Review report. The development of a risk management and service evaluation framework should include:

- key performance indicators and where appropriate, minimum data sets
- NSW Health Quality Policy for funded services
- risk management process
- service evaluation process.

Recommendation

The funding policy framework includes a proportionate, risk-based performance monitoring and evaluation framework as recommended by the NSW Health NGO Review (Recommendation 2.1) that aligns with current NSW Government guidelines.

Evaluation

NCOSS believes that evaluation at the organisational and program level is necessary to inform service improvement and drive better outcomes. Evaluation mechanisms and service standards must be developed prior to the procurement of services. These need to include support to manage unexpected outcomes or events, processes to deal with poor performance and clear consequences for failure to improve. Funding and support for evaluation must also be fully provided for in service delivery contracts.

We note the Productivity Commission's measurement framework and types of indicators at Appendix 3 may be useful to inform program and service evaluations.

Recommendation

³⁶ APSC, p34

All funding contracts and agreements include service and program evaluation requirements and associated funding.

Enablers

The successful implementation and operation of the funding framework requires appropriate systems and support. Investment in procurement and relationships management capabilities, information and data management systems and capacity building are essential to deliver an efficient and effective Health NGO Program.

Recommendation

NSW Health adequately resources the systems and supports for the NGO funding policy framework that are required to deliver an efficient, effective and sustainable Health NGO program. This includes procurement and relationships management capabilities, information and data management systems, and capacity building.

Information and data management systems

Information and communication technology (ICT) has the potential to deliver efficiency savings through more timely, accurate and streamlined information and data management. ICT systems can provide a robust evidence base for program planning and evaluation, improve funding and procurement processes and streamline reporting requirements.

The 2010 Health NGO Review and more recent discussions at the Health NGO Advisory Committee have identified the lack of comprehensive, reliable program data as a barrier to informed decision-making and program improvement.

The NCOSS strategy, *Community Connexions: NCOSS ICT Strategy Report 2008*, identifies a number of recommendations to meet the medium to long term ICT support and development requirements of the NGO Human Services Sector.

Recommendation:

NSW Health implements recommendation of the 2010 Health NGO Review (Recommendation 1.3) to develop a centralised web based NGO application and data management ICT system.

Procurement capabilities

Procurement capabilities, including contract and relationship management skills, are essential to ensure the best outcomes from outsourcing service provision.

The NSW Commission of Audit noted that there is, “*an ongoing shortage of staff across the (public) sector skilled in project management and management of third party delivery contracts. These capabilities are becoming increasingly important to the sector with the further devolution of service delivery to private and not-for-profit organisations*”³⁷

Government also needs to develop a new set of skills in managing network relationships. The Australian Public Service Commission noted that the trend to devolved government and network governance involves ‘a full-blown cultural transformation’ that requires a different

³⁷ NSW Commission of Audit (2012) *Interim Report: Public Sector Management*, 24 January 2012, Sydney, p98

form of public management and the ability to manage partnerships and hold partners accountable.³⁸ Government officers who engage with the sector must have a good understanding of community sector providers and the impact of doing business with government has on them.

Recommendation:

NSW Health public servants who manage funding processes are trained and supported in procurement, including contract management and relationship management skills, and with understanding community sector organisations.

Innovation funding

Community sector organisations innovation to meet local needs is a key benefit of the sector. However, their capacity for systemic (or should it be “systematic”?) innovation is being stymied by overly prescriptive contract service specifications and a lack of flexible funding to support research and experimentation.

The Productivity Commission recommended that government should establish ‘social innovation funds’ to trial new approaches to service delivery including evaluation of their cost-effectiveness.³⁹ A flexible funding pool for innovation or an identified funding component included in service contracts or agreements will support the development of more cost-effective solutions to existing and emerging social issues.

Recommendation:

The NSW Health NGO Program includes a funding component for social innovation.

Capacity building and support

Community sector organisations need capacity building and support to develop and strengthen the skills, processes and resources to take advantage of new market opportunities and adapt to new funding requirements.

Shifting funding to purchase of service contracting can unfairly advantage larger organisations who either have the resources and centralised capacity to apply for tenders or can attract pro-bono tender writers based on their public profile. The 2009 NSW NGO Red Tape Report specifically recommended that government build the skills development and corporate infrastructure capacity of smaller organisations to respond to the funding shift to competitive tender and staged EOI processes.⁴⁰

NCOSS believes that the NSW Health NGO Program must include resourcing for sector capacity building to build skills in governance and compliance, facilitate planning and evaluation, promote workforce sustainability, stimulate cooperation and enhance access to capital. This investment will support a more efficient, effective and sustainable sector.

The Australian Public Service Commission similarly recommended that government agencies who engage community sector providers should support their service capabilities through the:⁴¹

- provision of information about the relevant operating environment and developments

³⁸ APSC (p37-8).

³⁹ PC, Recommendation 9.5, pLIX

⁴⁰ NGO Red Tape Reduction Report, 2009, p9

⁴¹ APSC p54

- provision of training and/or assistance in reporting and governance requirements
- sharing of information about better practice innovations
- provision of skills training and professional support
- streamlining contractual or funding agreement arrangements and associated reporting.

Recommendation:

The NSW Health NGO Program includes adequate funding for sector capacity building initiatives.

Health funded peak organisations

Non-government peak organisations are critical to supporting an efficient and effective community sector. Peak organisations provide a coordinated interface between service providers and government, and between government and the communities their members serve. Peak organisations provide a platform for the development and delivery of key services and products to support the sector.

The peaks' independence enables them to support their members effectively, advocate for vulnerable service users and provide frank and fearless advice to government. It is critical that their independence is not undermined by requirements to police the sector through a greater role in monitoring and compliance with new funding arrangements.

The *Service Outcomes for Peak Bodies* reference paper was developed by the Working Together for NSW Joint Human Services CEOs and FONGA in 2007. It broadly defines the role of peaks in NSW as:

- capacity building contributing to sector development
- promoting partnerships and cooperation
- policy development and advocacy
- consultation
- research
- provision of advice and information
- demonstrating leadership and innovation.

Recommendation:

NSW Health maintains its funding for peak organisations to provide the functions agreed in the 2007 Service Outcomes for Peak Bodies. Any additional roles associated with new funding arrangements must be negotiated with the peaks and must not compromise their independence.

Partnerships

Funding relationship

NCOSS believes that a respectful, collaborative relationship between NSW Health and the sector is pivotal to the Health NGO Program delivering improved outcomes for the community. The Productivity Commission noted that quality of the funding relationship between government and the sector is the key to its success. It recommend that funding

relationships respect the independence of service providers, provide scope for genuine negotiation and collaboration between government and providers, and are based on fair and reasonable terms and conditions.⁴²

NSW Health must recognise the power imbalance in its funding relationship with the sector. As the architect of the program, drafter of the contract, sole purchaser of the services and compliance agent, it is inevitably in a dominant position.⁴³ It has a responsibility to act fairly and protect the interests of the sector through its funding policy and practice.

NCOSS believes the funding relationship between NSW Health and the sector should be based on cooperation. We note that NSW Health's current proposal to 'partner' with the sector in new service opportunities is a legal partnership based on a contractual service delivery relationship. This is different from a genuine partnership based on equality, collaboration and respect.

We believe that cooperation in a funding relationship requires:

- joint planning exercises at all levels (State, regional, local)
- joint research and training
- mutual respect for each other's ways of working
- sharing of information
- working together to improve service delivery through planning, quality improvement, building service capacity and dissemination of information about practice issues.

The 2011 NSW Community Sector Charter provides a useful basis for further developing the relationship between government and the sector. We refer the Taskforce to the Western Australian Partnership Forum established in 2010 as an example of a successful partnership model between government and the sector that could be explored in NSW.

Recommendation:

NSW Health clarifies the nature of its relationship with the sector and, at a minimum, proactively builds a cooperative funding relationship.

NSW Government and the sector explore options for a new compact to develop policy and programs for vulnerable people and communities, such as the Western Australia Partnership Forum.

NGOAC

NCOSS believes that a stronger relationship between NSW Health and the NGO sector could be fostered through an effective the NGO Advisory Committee (NGOAC).

NCOSS is disappointed and frustrated that the NGOAC continues to be ineffectual despite its reformation following the 2010 NSW Health NGO Review. The NGOAC lacks sufficient authority and decision-making capacity. It has no strategic planning remit or mandate to endorse NSW Health policy. It also lacks an accountability mechanism for monitoring performance and evaluation. Critically, the Committee has lacked business support to progress the Committee's work and high level senior management support to drive performance.

Recommendation:

⁴² PC, p343

⁴³ PIAC/Whitlam, p15.

The role of the NGO Advisory Committee is expanded to include a strategic planning function based on a social determinants of health approach. (N.B. Discussed further under strategic planning).

The NGO Advisory Committee work plan outlines clear responsibilities, deliverables, and timeframes for agreed action items and is underpinned by a performance monitoring and evaluation framework that includes departmental accountabilities.

Conclusion

NCOSS thanks NSW Health and the Taskforce for the opportunity to provide this submission on the Health NGO Grants Management Improvement Program.

Funding policies are critical to the continuation of trusting relationships, accountability, and effective service delivery. We urge NSW Health to take a strategic approach in developing a funding policy framework based on clearly defined program objectives and service priorities. Critically, the framework must recognise the value-add of the community sector. Delivering quality services to the people of NSW requires funding policy and practice that supports and strengthens the sector's contribution to the community rather than constrains it.

For inquiries or further information in relation to this submission, please contact Solange Frost, Senior Policy Officer (Health) NCOSS on 02 9211 2599 ext. 130 or solange@ncoss.org.au.

Attachments

Forum of Non Government Agencies (FONGA) (2011), [NSW Community Sector Charter](#), Council of Social Service of NSW, Sydney

Council of Social Service of NSW (2012) [Submission to the Legislative Assembly Committee on Community Services Inquiry into Outsourcing Service Delivery](#), NCOSS, Sydney.

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APPENDIX ONE

REFERENCE LIST

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APPENDIX TWO

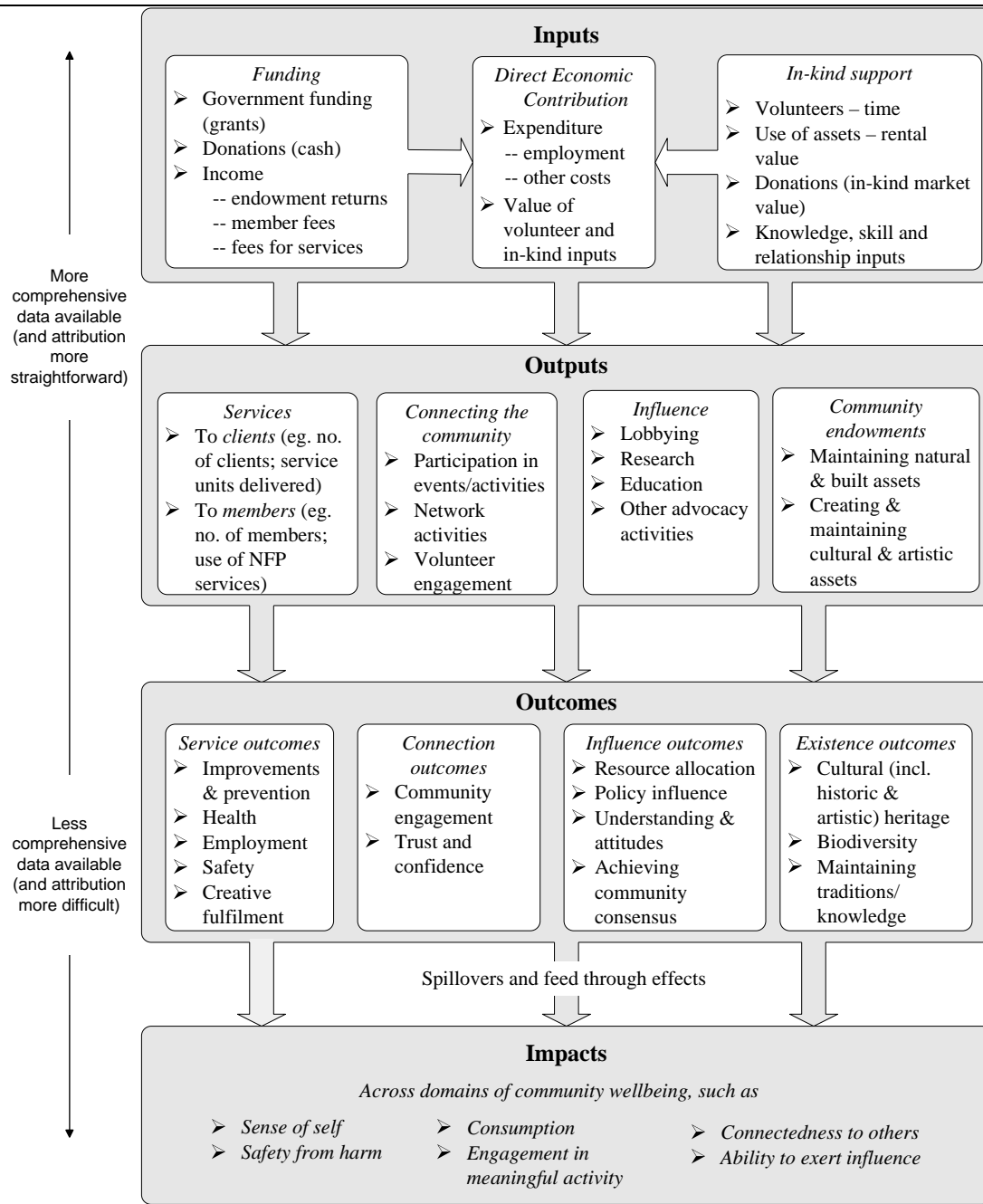
Ten features and benefits of a strong, diverse and efficient not for profit community services sector

1. The sector is mission driven rather than market driven. This means that surpluses are reinvested back to provide a dividend for community stakeholders, rather than individual shareholders. This may take the form of an enhanced range of services, increased provision of services, or higher quality services.
2. The mission and altruistic purpose generates goodwill which mobilises additional human and material resources including valuable networks and relationships. While this provides added value, it is important to distinguish between such efficiency and “provision on the cheap”.
3. The altruistic purpose can lead to greater trust and faster and more effective engagement of marginalised individuals – not for profit community service and welfare agencies can be a safe and preferred place to go which is supported by ABS surveys and ACOSS commissioned polling.
4. The sector can be more responsive to previously unrecognised needs resulting from market or government failure – the initiative is far more likely to come from organisations which have a stake in that need, than from government departments or commercially engaged service providers. Not for profit providers often provide services which may be too politically sensitive for governments to directly offer – for example, assistance for asylum seekers, needle injecting centres and sexual health workers.
5. An ability to respond holistically and flexibly - community organisations are generally better equipped to respond to a full range of client needs in a flexible way. Such responsiveness and flexibility cannot be guaranteed by contracted commercial services and probably not by more bureaucratic or siloed government structures.
6. Participation and representation of clients in management structures, program development and delivery can be empowering and lead to more effective outcomes. Representative and networked ways of operating enhance information flows both up and down and across a range of points of contact.
7. A long term commitment to an issue, client group or local community brings a history of knowledge, expertise and lessons learned and a constant search for understanding the structural causes of problems.
8. Innovative solutions based on practice to both anticipate new needs (from an ageing population, a global financial crisis or climate change) and to respond more effectively to ongoing and deep seated inequalities (closing the gap on indigenous life expectancy).
9. Building community cohesion and social capital. Meaningful community involvement in, and responsibility for, providing community services is an important tool for weaving community cohesiveness. This can serve as a safeguard against some parts of our society becoming marginalised or alienated
10. The activities of community organisations contribute directly and indirectly to the economy, directly through paid and unpaid employment and indirectly through their contribution to maintaining the wellbeing of individuals, families and communities, thereby providing the human resources necessary for the economy to function

Source: ACOSS submission to the Productivity Commission on the contribution of the not for profit sector, June 2009.

APPENDIX THREE

A framework for measuring the contribution of the sector



Source: Productivity Commission, Contribution of the Not for profit sector

APPENDIX FOUR

Box 12.5 **Some suggested common principles for government and not-for-profit contracted services**

In a joint submission the Public Interest Advocacy Centre and Whitlam Institute (sub. 159) recommended the adoption of a common set of core principles to underpin contracted service delivery programs. These principles can be summarised as:

Foundations of the contract

- (a) All parties should enter into the contract in good faith.
- (b) There is a presumption of good will.

The relationship between the contracting parties

- (a) The relationship between the contracting parties is one of trust.
- (b) The contracting parties will accord each other proper respect.
- (c) The relationship between the contracting parties is supportive and collaborative.

Nature of the contract

- (a) The contract should be clear and readily understood.
- (b) The requirements in the contract should be guided by the principle of proportionality.
- (c) The terms of the contract should be responsible and reasonable.
- (d) The contract should establish meaningful outcomes.

Operation of the contract

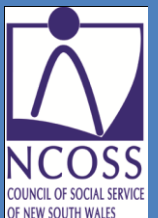
- (a) The contract should allow for decisions to be made at the appropriate level.
- (b) The contract should operate consistent with the presumption of good will and trust.
- (c) The contract should be based on full and fair costing.
- (d) The contract should allow that risk exists, cannot be eliminated and will be shared.
- (e) The contract should be administered in a timely manner.

Source: Public Interest Advocacy Centre and Whitlam Institute (sub. 159).



The New South Wales Community Sector Charter

*Endorsed by the Forum of Non Government Agencies
on 7 October 2011*



www.ncoss.org.au/charter

The NSW Community Sector Charter is endorsed by





Note: Logos last updated 16 April 2012

Purpose of the Charter

This Charter has been prepared to define and communicate to other sectors of society (governments, business and the broader community) what the community sector is, and to raise awareness of its vital role and invaluable contribution to society.

The Charter promotes a unified community sector by presenting a shared identity, vision and values. It is intended to empower community organisations across NSW by providing a vehicle for asserting a strong collective voice, and in doing so, increase our influence towards achieving our vision of a fair and just society for all.

The development of this document is an initiative of the Forum of Non Government Agencies (FONGA) which is comprised of state-wide community peaks, regional and state wide organisations, and is convened by the Council of Social Service of NSW (NCOSS).

The New South Wales Community Sector Charter

The Community Sector

The Community Sector works to promote community and individual well-being.

We

- work for change so that everyone has a fair go
- strengthen communities and individuals to take charge of their own future
- provide practical support so people achieve their full potential

We

- use our resources efficiently and solely for our work and the communities we work with
- are independent of government and commercial interests
- strive to be ethical, accountable and professional

Who we are

The Community Sector is made up of service delivery, community development, social justice and advocacy organisations operating across a range of areas including health, housing, homelessness, employment and education, disability, aged care, services for children, young people and families, Aboriginal affairs, multicultural affairs, and justice.

Our sector is made up of organisations that are diverse in size and scale, ranging from small voluntary groups to large national organisations. Organisations operate in neighbourhoods, local communities, regions or across the whole state. Some focus on areas of specialist service delivery or advocacy while others engage with a broader range of issues.

A Shared Vision for the Community Sector

The NSW Community Sector strives for a fair and just society for everyone.

We do this by:

- supporting communities to build skills and find solutions;
- providing effective and inclusive services; and
- reducing disadvantage in our society through advocacy

Together we will build and promote a Community Sector comprised of organisations that are committed to shared values and is strong and sustainable.

Shared Values for the Community Sector

We value:

1. Human rights
2. Individual and community well-being
3. Diversity
4. Aboriginal and Torres Strait Islander self-determination
5. Cooperation and participation
6. Excellence
7. Independence
8. Inclusion
9. A sustainable environment

1. We uphold and advance fundamental human rights.

- All people have the right to freedom, justice and equality.
- We aspire to – and work towards – a fair and just society for all.
- We believe that all people in NSW must have access to decent standards of health, education, housing, safety and economic and social wellbeing.

2. We share a commitment to advancing the well-being of individuals, communities and society as a whole.

- Through direct service delivery, community development and advocacy, we seek to help everyone achieve their full potential.
- We recognise that individual disadvantage affects whole communities and we strive to enable communities to support and sustain people.
- We seek to influence public policy and practice to overcome systemic and other barriers to individuals and communities achieving a fair go.

3. We embrace all forms of diversity.

- We strive to understand – and respond appropriately to – the needs of individuals and communities with whom we work.
- We welcome informed debate and differences of opinion and approach, among people who access our services, stakeholders or organisations within our sector.
- We believe that by considering different perspectives and experiences we are better placed to make good decisions about what we need to do.

4. We stand for self determination and an end to disadvantage for Aboriginal and Torres Strait Islander peoples.

Aboriginal and Torres Strait Islander people are the traditional owners of the land.

- We seek to redress the inequities between the wellbeing of Aboriginal communities and other communities.
- We work with Aboriginal peoples and organisations to achieve Aboriginal self determination where Aboriginal people are in charge of their own decisions and have ownership of their services.

5. We believe in cooperation.

- We work together with other organisations across our sector and beyond to develop and deliver the best results for people in our communities.
- Working together means we can utilise specialist and different skills to resolve issues and address needs.

6. We value excellence.

- We strive towards excellence in what we do, to deliver high quality services and to continually review and improve.
- We value the commitment, knowledge and skills of workers within our sector. Our volunteers and paid workers are vital to the work we do and enrich our governance.
- People in our sector are characterised by their professionalism, qualifications, expertise and breadth of experience which they use to ensure the best possible outcomes for people and communities.
- We are committed to supporting and developing our sector, our organisations, our volunteers and our paid workers so they can meet the changing needs of communities and the people who access our services.

7. We affirm the importance of our autonomy from government and commercial interests to maintain diverse voices and approaches within a democratic society.

- Our independence from government is one of our strengths. Within this context we strive for mutually beneficial and fair relationships with government.
- We are united by our emphasis on people, rather than profit and play a vital role in supporting and empowering the most vulnerable people and communities.

8. We work towards a society where all people are valued and respected and where each person has a fair standard of living that enables them to participate fully in community life.

- We value the voices of the communities we work with and people who use our services.
- We seek participation from communities, and people who use our services in identifying needs and developing solutions.
- We identify and work to remove barriers that prevent people from participation in decisions affecting them and making the most of their opportunities.

9. We believe that individual and community wellbeing is enhanced and supported by promoting a sustainable environment.

- We work to ensure that our activities and behaviour support the sustainability of our environment for current and future generations.

How the Community Sector makes a difference

The Community Sector has a positive impact on NSW society and plays a vital role in the delivery of important services. The sector's contribution is far reaching and includes:

- promoting a fairer, more tolerant society through advocacy, by raising awareness of disadvantage and injustice and by proposing solutions;
- encouraging participatory democracy by fostering community involvement in our organisations and in broader systems and processes;
- developing strong, cohesive, self-reliant communities by bringing people and groups together;
- building the skills base of the community through development work with volunteers, workers, communities and people who use our services; and
- undertaking work that may not be commercially viable, delivering needed services to people who would otherwise not have access to them.

Our role in service delivery includes:

- applying specialised knowledge and expertise to meet the needs of particular groups within our society;
- working closely and collaboratively with communities and people who access our services to ensure they meet real needs;
- exercising flexibility and innovation in our practices;
- learning from our experiences and adapting our approach to deliver better outcomes;
- providing cost-effective services focusing on public benefit rather than economic returns;
- protecting and embracing diversity, including differences of approach or opinion within our sector.

Strengthening our collective influence on Government and the Community

A strong, united voice allows the Community Sector to effectively advance necessary change to achieve a fairer and more just society.

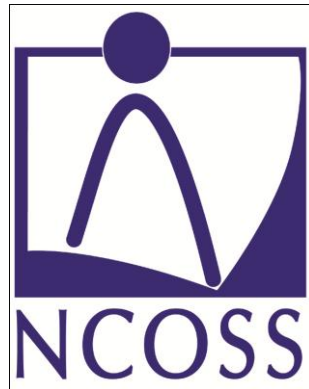
To achieve this, we will develop:

- mechanisms to prioritise issues of importance and shared positions through cross-sector engagement and robust interaction;
- strategies to gather credible information and evidence to inform our decisions and to support our positions;
- fluid participation and advocacy mechanisms, reflecting the diversity of our organisations and their users, to represent positions relating to smaller subgroups and particular issues;
- peak organisations to represent constituent organisations and build expertise; and
- communication and marketing strategies and tools to help us present our messages effectively.

The NSW Community Sector Charter is endorsed by

1. Aboriginal Child, Family & Community Care State Secretariat
2. ACON
3. Aged & Community Services Association NSW & ACT
4. Aged Care Rights Service
5. Albury Wodonga Community Network Inc
6. Alzheimer's Australia NSW
7. Anglicare Sydney
8. Association Of Children's Welfare Agencies
9. Australian Red Cross
10. Baptist Community Services - NSW & ACT
11. Barnardos Australia
12. Benevolent Society
13. Brain Injury Association NSW Inc
14. Cancer Council NSW
15. Carers NSW Inc
16. Catholic Community Services
17. Catholic Social Services NSW/ACT
18. Central Coast Community Council
19. Centre for Volunteering, The
20. Combined Pensioners & Superannuants Association Of NSW Inc
21. Community Child Care Co-operative Ltd
22. CCSA (formerly Community Connections Solutions Australia)
23. Community Legal Centres NSW
24. Council of Social Service of NSW
25. Disability & Aged Information Service Inc
26. Early Childhood Australia
27. Ethnic Communities Council of NSW Inc
28. Family Planning NSW
29. Homelessness NSW
30. Illawarra Forum Inc
31. Inner South West Community Development Organisation
32. Inner Sydney Regional Council
33. Integricare
34. KU Children's Services
35. Life Without Barriers
36. Local Community Services Association
37. Mental Health Association NSW Inc
38. Mental Health Co-ordinating Council Inc
39. Mid North Coast Regional Council for Social Development
40. Mission Australia – NSW State Office
41. Network Of Alcohol & Other Drug Agencies
42. Northcott Disability Services
43. Northern Rivers Social Development Council
44. Northside Community Forum Inc
45. NSW Association for Youth Health
46. NSW Community Transport Organisation
47. NSW Council For Intellectual Disability
48. NSW Family Services Inc
49. NSW Federation of Housing Associations Inc
50. NSW Meals On Wheels Association Inc
51. NSW Women's Refuge Movement
52. Older Women's Network NSW Inc
53. Physical Disability Council NSW
54. Public Interest Advocacy Centre
55. Quality Management Services
56. Salvation Army, The
57. SDN Children's Services Inc
58. Sector Connect
59. Settlement Services International
60. Shelter NSW
61. St Vincent de Paul Society
62. Tenants' Union Of NSW Co-op Ltd
63. UnitingCare NSW ACT
64. Welfare Rights Centre
65. Wesley Mission
66. Western Sydney Community Forum
67. Women's Health NSW
68. Workers Health Centre
69. Y Foundations
70. Youth Action & Policy Association NSW Inc

Note: List last updated 10 August 2012



Submission

Inquiry into Outsourcing Service Delivery

Legislative Assembly Committee on Community Services

May 2012

Council of Social Service of NSW (NCOSS)

66 Albion Street, Surry Hills 2010

Ph: 9211 2599, Fax: 9281 1968

For questions or further discussion about the information contained in this submission please contact Alison Peters, Director on (02) 9211 2599 ext 107 or email: alison@ncoss.org.au

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1 About NCOSS

The Council of Social Service of NSW (NCOSS) has a vision of a society where there is social and economic equity; a society based on cooperation, participation, sustainability and respect.

NCOSS was formed in 1935 by a number of organisations who, through their experiences working with people during the Great Depression, believed that more should be done to address the causes, as well as the consequences, of poverty. NCOSS was established to advocate to Government for measures that would reduce the risk of poverty as well as alleviate its consequences and to coordinate the efforts of non government organisations to that end. This remains our purpose today.

NCOSS is the peak body for the non-government community services sector in New South Wales (NSW). Through our organisational membership, NCOSS represents a vast network of service delivery, advocacy and consumer groups.

We provide independent and informed policy development, advice and review and play a key coordination and leadership role for the non-government community sector in NSW. We work with our members, the NSW Government and its departments, and other relevant agencies, towards achieving our vision for a socially just NSW.

2 Recommendations

1. That the NSW Community Sector Charter be recognised as an important foundation for discussion between Government and the sector about our relationship and how it might be strengthened
2. That the NSW Government and NSW Community Sector negotiate a new and effective compact modelled on the Western Australian Partnership Forum to jointly develop policy and programs to meet the needs of disadvantaged and vulnerable people and groups.
3. That the NSW Government negotiate with the NSW Community Sector a whole of Government Funding Policy that incorporates
 - Policy and program development
 - Service planning at both a statewide and regional level
 - Service procurement
 - Performance management and evaluation
4. That all service delivery contracts factor in organizational and program evaluation and that the necessary support and funding be available to do this.
5. That the Government, as part of its negotiation with the Community Sector regarding a whole of Government Funding Policy, include consideration of appropriate probity, accountability and compliance mechanisms.
6. That funding take into account the full cost of service delivery including appropriate overheads that allow for investment in the future capacity and sustainability of Community Sector organisations.

7. That attention be paid to developing the capacity of Community Sector organisations both at an organizational and at an industry level.

3 Structure of this submission

NCOSS is aware that a number of organisations have made submissions that address the specific services outlined in the Inquiry's Terms of Reference. In this submission, NCOSS seeks to place the issue of service delivery in the broader context of policy development that sets out what services are necessary to address the needs of people and communities.

Our submission outlines the role of the community sector, how governments may use the expertise of the sector in developing policy and programs and how to ensure services are delivered in an effective way to improve the opportunities and wellbeing of people and communities.

4 Introduction

The Community Sector is a vital and vibrant part of NSW that provides services and support to those who need it most as well as building a strong civil society. These are crucial elements for a fair and prosperous state. While a significant part of the work of the sector is funded by and carried out in partnership with Governments our role is far broader and encompasses research, advocacy and the development of innovative solutions and practice. We very much see our role as complementing the role of governments.

The role of the Community Sector in delivering services funded by, or with the support of government, is not new. In many cases, Community Sector organisations (hereafter NGOs) have provided assistance and support to people in need since 1813 when Australia's first charity, the Benevolent Society, was established. Through advocacy and demonstrated effectiveness of such services governments have over time contributed to the cost of the delivery of these services. Increasingly governments have also looked to the Community Sector to deliver services on governments' behalf because of the sector's unique capacity to deliver effective services to vulnerable and disadvantaged people.

NCOSS notes that the Inquiry Terms of Reference make specific reference to housing, disability and home care services. We would urge the Committee to take a broader view of the range of services provided by the Community Sector which include health, transport, legal, children's services, youth services, family support, education, employment, community development and advocacy. To not take into account the breadth of services may lead to conclusions that act against the diversity of the Community Sector which is one of its key strengths.

NCOSS also argues that any consideration of the devolution and outsourcing of service delivery must take into account the broader questions of policy and program development rather than the narrower questions of procurement of particular services. It is necessary, we believe, to start with considerations of what services and why before addressing the how.

5 The Community Sector

5.1 Community Sector – size and economic contribution

The Community Sector is a significant part of the broader Not-For-Profit sector (hereafter NFP sector). The Productivity Commission¹ recently completed a major research report into the contribution of the NFP sector and found that:

- There are about 600 000 not-for-profit organisations (NFPs)
- 59 000 are deemed economically significant,
- The sector contribution to GDP grew from \$21 billion in 1999-2000 to \$43 billion in 2006-07 (an increase of 7.7 per cent pa in real terms).
- This made up 4.1 per cent of GDP in 2006-07, up from 3.3 per cent in 1999-2000, which does not include volunteer contributions.
- Volunteers contributed \$14.6 billion in unpaid work in 2006-07 up from \$8.9 billion in 1999-2000 in nominal terms (4.3 per cent real annual average increase).
- NFPs employed 890 000 people in 2006-07, up from 604 000 in 1999-2000 (average annual growth rate of 6.7 per cent).
- Social services were the largest category of employers representing 25% of employment in NFPs

The NSW Government provides approximately \$1.5 billion p.a. in funding to 2,100 organisations² in the community sector.

5.2 Role of the sector

ACOSS³ has listed the features and benefits of a strong, diverse and effective NFP community services and welfare sector as:

- being mission driven with surpluses reinvested back to community stakeholders rather than individual investors
- where mission and altruistic purpose generates goodwill which mobilises additional human and material resources including valuable networks and relationships
- greater trust and faster more effective engagement of marginalized individuals
- more responsive to previously unrecognized needs
- capacity to respond holistically and flexibly
- empowering for individuals and communities
- long term commitment which brings a history of knowledge, expertise and lessons learned and a constant search for understanding the structural causes of problems
- developing innovative solutions based on practice to both anticipate new needs to responding more effectively to ongoing and deep seated inequities

¹Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*, Research Report, Canberra.

² Equal Remuneration Case Witness Statement of Michael Gadiel, 29 July 2011 at para 31 (accessed through <http://www.fwa.gov.au>)

³ ACOSS 2009, Submission to the Productivity Commission on the Contribution of the Not-For-Profit Sector.

- building community cohesion and social capital
- contributing directly and indirectly to the economy through paid and unpaid work and by contributing to individual and community wellbeing allowing others to also contribute.

The Productivity Commission⁴ noted the benefits of NFPs as:

- the way NFPs add value through delivery of services and the nature of their processes such as the way NFPs are organized, engage with people and make decisions
- that NFPs do things governments and for-profits won't for political, commercial and risk reasons
- centrality of relationships – leads to trust (concern that government contracts and funding undermines if seen to be just an arm of government)
- spillover effects – reduced social disadvantage, increased social inclusion, facilitating strong civil society

This demonstrates that the Community Sector has a broader role than “mere contractors” engaged in service delivery on behalf of government. They have a broader role that supports and develops resilient and vibrant communities that are the basis of a strong and prosperous state. The Community Sector is therefore vital to meeting the NSW Government’s NSW 2021⁵ targets, not only those related to the areas where the sector delivers services such as child well being, homelessness and disability but also to facilitate participation in communities, involvement in decision making and as a contributor to the economy, particularly in regional areas where the Community Sector is a significant and growing employer.

5.3 The NSW Community Sector Charter

The NSW Community Sector Charter (see Appendix A) has been developed by the Forum of Non Government Agencies (FONGA) and NCOSS to raise awareness of the sector’s vital and invaluable contribution to society.

The Charter was endorsed by FONGA in October 2011 and we are now in the process of seeking endorsement by Community Sector organisations more broadly. NCOSS believes that the Charter is an important statement that explains the role of the Community Sector and how we function. We see the Charter as a useful basis for further developing the vitally important relationships and trust in communities throughout NSW that allows all people to access the opportunities available and to share in the prosperity that comes from a dynamic and fair society.

The Charter sets out a shared identity, vision and values for the Community Sector and points to a broader role than service delivery to include community development and advocacy.

Recommendation

⁴ Productivity Commission op cit

⁵ NSW Government, NSW 2021 A Plan To Make NSW Number One, 2011

That the NSW Community Sector Charter be recognised as an important foundation for discussion between Government and the sector about our relationship and how it might be strengthened.

6 The role of the Community Sector in policy and program development

The role of the Community Sector goes well beyond service delivery and includes the development of research and policy, development of innovative models, capacity to advocate on behalf of and as members of the community and the support of communities more generally⁶ as well as providing expertise and insight to government consultation processes – especially in understanding the broader context in which particular policies or programs sit.

To build on this broader capability, governments and the Community Sector have often looked to more formal and structured relationships. These have often been described in agreements or compacts setting out the principles of the relationship and how the Community Sector and governments will relate and interact on issues of mutual interest.

Such compacts between government and community sector organisations include clear statements of representation and the principles underlying respective roles and functions. They succeed best when they outline not only the areas of cooperation (where attention is focused) but also the instruments of cooperation (how the parties will address the identified priorities). Effective implementation requires time and specified resources.

6.1 Working Together for NSW

Working Together for NSW⁷ (hereafter Working Together) was an agreement between the former NSW Government and the NSW Community Sector through FONGA. Its purpose was to achieve better outcomes for individuals, families and communities and it set out as its principles for the relationship an evidence based approach, outcomes, accountability, respect, communication, independence and inclusiveness.

NCOSS as convenor of FONGA and the peak organization for the community sector was extensively involved in the negotiation and development of Working Together and its subsequent implementation. While Working Together provided some underpinning for discussions between the Community Sector and Government there were some weaknesses such as:

- There was no clearly articulated implementation plan with specific whole of government, whole of sector priorities.

⁶ ACOSS 2009 Submission, Reform of Australian Government Administration at p5

⁷ Working Together for NSW – An Agreement between the NSW Government and the NSW non-government human services organisations, June 2006.

- No specific resources were allocated and so at a practical level day to day matters took priority
- Not well understood by Government or the Community Sector and so lacked political will and leadership to drive the process
- Did not engage or involve Government at a political or central agency level and so had no whole of Government imperatives or application
- Engagement tended to be driven by the annual implementation meeting rather than an overarching plan with concrete outcomes

NCOSS has called for an effective working relationship⁸ or compact between the Community Sector and Government.

5.3 Western Australia – the Partnership Forum⁹

A more recent and arguably successful model is the Partnership Forum in Western Australia. The Partnership Forum was established by the Premier of Western Australia in 2010 and acts as a focal point for building and maintaining the relationship between the government and community sectors and fostering collaboration and innovation in policy, planning and service delivery. The Forum achieves this through bringing together an equal number of senior representatives from State Government agencies, including central agencies, and the community sector to address issues of mutual concern.

The Forum has adopted a set of Partnership Principles and Behaviours, including:

- a commitment to improve social, cultural and economic outcomes for the Western Australian community;
- a collaborative approach to decision making and working together recognising the interdependence in the delivery of community services; and
- a commitment to empowering service users in the design, planning and delivery of community services.

These principles engender a focus on community consultation on all significant issues and the engagement of citizens in the ongoing design, planning and delivery of human services.

The Partnership Forum is progressing a number of initiatives to support and strengthen the way in which services are provided including sustainable funding and contracting reforms with the Community Sector.

The idea for the Partnership Forum came out of the Economic Audit Committee (EAC) Report, Putting The Public First¹⁰. The report recognised that Community Sector organisations are efficient, cost effective providers of services and recommended the sector play a greater role in service delivery.

⁸ NCOSS Vote 1 Fairness in NSW March 2010

⁹ See www.partnershipforum.dpc.wa.gov.au and www.wacoss.org.au

¹⁰ West Australian Government Economic Audit Committee Report, Putting The Public First: Partnering with the Community and Business to Deliver Outcomes. 2009.

The Partnership Forum is working to fundamentally change the relationship between the public sector and the not-for-profit community sector. The goal is to create a strong and genuine partnership built on respect and a shared responsibility for building a better society for all Western Australians.

Recommendation

That the NSW Government and NSW Community Sector negotiate a new and effective compact modelled on the Western Australian Partnership Forum to jointly develop policy and programs to meet the needs of disadvantaged and vulnerable people and groups.

7 Whole of government Funding Policy

The Productivity Commission has said that NFPs, to be sustainable and effective, need sound institutional arrangements and what all businesses need

- Sound and supportive regulatory system
- Access to resources (capital and labour)
- Good relationships with stakeholders¹¹

Furthermore, they have estimated that governments generally fund only 70% of the cost to the sector in providing services.

VCOSS¹² has said that sustainability of funding is necessary for consistency in service provision and has called on governments to look beyond the short term as this offers the best opportunity to develop a way forward that provides certainty and efficient use of tax payer funds. VCOSS has proposed for a five point plan comprising:

- Agreed funding formula for indexation¹³
- Better coordination of programs and policy across levels of government
- Reduction of red tape and compliance burden
- Streamlining of funding application processes including an agreed way to manage upfront tendering costs which can be a disincentive to smaller NGOs
- Government to fund a comprehensive study of the economic and social contribution of the community sector, jointly done with the sector, which would establish benchmarks and clear indicators of value and returns on investment from effective programs and service provision and serve to inform policy and investment decision making

NCOSS has long called for an improved policy and process for funding community sector organisation. In the NCOSS State Election Platform, *Vote 1 Fairness in NSW*¹⁴ a key measure being advocated for was a sensible and whole of government

¹¹ Productivity Commission, op cit

¹² VCOSS, Sustaining the Frontline, April 2012.

¹³ In Victoria such a formula has been developed by the Allen Consulting Group

¹⁴ NCOSS 2011, Vote 1 Fairness in NSW at page 51

funding policy that would be the subject of consultation, discussion and negotiation between Government and the community sector. Such a policy would enhance communication, reduce administrative burden and streamline time and risk management. NCOSS said the following needed to be done

- Harmonization of regulatory definitions and requirements
- Red tape reduction via information technology enabled common reporting requirements/systems
- Guaranteed consistent indexation and increases to reflect award requirements and movements
- Minimum 3-5 years funding cycles

7.1 NCOSS Funding Policy Principles¹⁵

Good funding policy and practice is a key component of a robust and effective relationship between government and the non-government sector. It is a pre-requisite for:

- Supporting and recognising the community services industry as viable and essential to support the people of NSW.
- Supporting strategies that strengthen and build on the existing capacity of the community services industry and its workforce to support disadvantaged people and communities, and as a vital contributor to the NSW economy.
- Reducing red tape and assisting the community services industry to enhance planning, financial management and service development to meet their own needs and objectives.

NCOSS has developed the following principles which we see as essential components of a comprehensive funding policy:-

Nature of Human Services

- There is a fundamental difference between human services provided by the non government community sector and commercial services. Failure to recognise and take into account this difference will lead to poor and potentially perverse outcomes for vulnerable and disadvantaged people and their communities.
- Guarantee of service and better outcomes for clients must be the priority consideration underpinning all stages of the funding process.

Holistic approach

- There is a need to understand what services, programs and processes are already in place, what changes are required and why, and what capacity there is to build on existing foundations before considering new or different

¹⁵ NCOSS Submission on the Draft DHS Procurement Policy Framework November 2010. See Appendix B

programs, funding arrangements, procurement processes and service providers etc.

- The non-government human and community services sector values its diversity, independence and collaborative approach. These attributes provide a strength that governments can better utilise to strengthen decision-making and improve effectiveness. However, these attributes can also be undermined by poor planning and consultation processes (or poorly implemented processes) and 'market'-driven procurement processes.
- Investment needs to be appropriately made across a range of intervention responses from universal, prevention, early intervention and crisis based responses. Focusing on one at the expense of the full range of responses will not work.
- There is an emerging body of evidence that prevention and early intervention can reduce the need for more costly tertiary and crisis interventions. However, it would be wrong to cease ongoing investment in crisis intervention as it is unlikely that the need for such services will be eliminated totally.

Planning

- Planning across government and involving all stakeholders should take place before procurement is undertaken.
- Planning should occur on an ongoing and systematic basis and must occur at local, regional, state and national levels.
- Planning requires shared information and time to consider the implications, as well as an agreement about what information and type of information is required.
- It is important to invest time and energy in developing the skills and understanding of those involved in the planning process before it commences.
- Participation in planning processes is designed to ensure that diverse sources of expertise and experience can be taken into account. Participation in such processes must, therefore, not be seen, of itself, as giving unfair advantage or necessarily leading to potential conflict of interest in subsequent procurement processes.

Non-monetary considerations

- In considering planning and procurement, non-monetary factors need to be acknowledged and valued. Measures for assessing these factors need to be developed.

Funding methods

- Options are:
- Renewable funding (grants)
- One-off or time-limited project funding

- Direct negotiation/allocation
- Individualised funding (for clients)
- Open or selective tenders.
- Each funding method involves costs for the parties involved which must be taken into account in determining the appropriate funding or procurement method.
- Longer funding arrangements (three to five years) are required. This needs to be accompanied by improved processes for accountability so that any issues can be addressed in a timely way.

Funding procedures

- Use of 'pre-qualification', accreditation or registration processes can reduce the need to provide organisational and governance details on every occasion, allowing the actual funding or procurement process to focus on the specifics of service delivery.
- Government staff whose role it is to consider and manage funding processes in the human and community services field should have adequate induction and ongoing training and support in working with non-government organisations to deliver outcomes for people and communities.
- Funding or procurement procedures must take into account:
 - Continuity of service provision for clients
 - Urgency of need
- Existing service provision and the potential for transition either into or out of particular funding arrangements
- Other reporting and organisational requirements that might impact on the capacity to prepare and submit tenders etc (e.g. end of financial year audits).
- The need for clear, consistent and ongoing communication, including about the timeframes involved.
- There needs to be recognition that long processes, especially without clear timelines, or delays in decisions can significantly impact on NGOs capacity to retain staff, plan, budget etc. This should be taken into account in determining the process and timelines and requires good communication and support.
- Funding agencies must have an appeals process in place and advise NGOs of their rights under such a process.

Funding levels

- An investment in NGOs enhances their capacity to engage in planning and service delivery, allows for diversity and should be seen as a precondition for effective and robust program/service development and delivery. This means full cost recovery plus an appropriate portion of overhead and management costs as a minimum level of funding.

- An obligation on service providers to contribute income raised from independent sources to supplement government-funded services should be removed (a 'no contributions policy').
- Annual indexation must be built into the funding levels to properly account for cost increases. Indexation should be based on an agreed formula and known to services well in advance of the commencement of each financial year to allow for service level planning.
- Funding must reflect requirements under the relevant industry award and any changes made to the award need to be passed on in a timely manner.

Performance Monitoring and Evaluation

- Non government organisations are accountable for the services they deliver. This accountability is to their clients and the community as well as funding bodies.
- Performance monitoring and evaluation needs to be ongoing and consistently applied.
- Evaluation mechanisms and service standards should be developed prior to the procurement of services. These need to include support to manage unexpected outcomes or events, processes to deal with poor performance and clear consequences for failure to improve.
- Compliance and reporting costs must be taken into account. Compliance and reporting must be useful and proportionate within and across programs ('red tape' should be avoided).

Recommendation

That the NSW Government negotiate with the NSW Community Sector a whole of Government Funding Policy based on the NCOSS Funding Policy Principles and that incorporates

- **Policy and program development**
- **Service planning at both a statewide and regional level**
- **Service procurement**
- **Performance management and evaluation**

8 Service delivery contracts.

8.1 Processes, outcomes and impact

NCOSS believes that evaluation at both an organizational and system level is necessary to understand how much we did, how well we did it and did we make a difference. Such information is crucial for service and program delivery refinement, organizational development and improvement as well as informing ongoing broader policy development. However, funding and support for evaluation is often not fully provided for in service delivery contracts.

There is a lack of consistent, common and relevant data available to the Community Sector to inform its work and conflicting requirements on NGOs regarding the collection of data under service delivery contracts.¹⁶ While noting that the soon to be established national NFP regulator, the Australian Charities and Not-for-Profit Commission (ACNC) intends to undertake work to develop a framework for consistent, common and relevant data collection, this will require bipartisan support and leadership from Commonwealth, State and Territory Governments and be done in conjunction with the sector.

Recommendation

That all service delivery contracts factor in organizational and program evaluation and that the necessary support and funding be available to do this.

8.2 Probity, accountability, compliance

The NSW Commission of Audit has noted that there is “an ongoing shortage of staff across the (public) sector skilled in project management and management of third party delivery contracts. These capabilities are becoming increasingly important to the sector with the further devolution of service delivery to private and not-for-profit organisations”¹⁷. NCOSS sees that such capabilities are essential to ensure the best outcomes from service delivery contracts entered into by Community Sector organisations.

The Community Sector is not opposed to necessary probity, accountability and compliance measures but seeks some balance and proportionality in the requirements contained in service delivery contracts.

Onerous requirements can take away from the capacity to deliver services. A recent survey conducted by BNG NGA¹⁸ found that the time taken by NGOs to comply with various Quality Service Standards imposed by funding agreements costs the sector nationally \$100m a year in compliance costs. As a participant in an ACOSS consultation commented “contract reporting requirements generate a lot of heat without shedding much light”.

Costs of compliance not covered fully or at all, changes to compliance standards within the term of a contract are often not factored in.

The Community Sector has argued that probity, accountability and compliance measures be developed in conjunction with the sector and that they be relevant and proportionate to the risks involved and the scale of the organisations involved.

Recommendation

¹⁶ ACOSS, Improving Community Sector Effectiveness and Priorities for Reducing Red Tape, 2011.

¹⁷ NSW Commission Of Audit, Interim Report – Public Sector Management at p98

¹⁸ BNG NGA is a consultancy that specializes in the management, governance and operations of not-for-profit organisations. In collaboration with NCOSS and the community sector, they have conducted a national survey on the time taken by NGOs to comply with various Quality Service Standards imposed by funding agreements. See <http://managementsupportonline.com>

That the Government, as part of its negotiation with the Community Sector regarding a whole of Government Funding Policy, include consideration of appropriate probity, accountability and compliance mechanisms.

8.3 funding and procurement

In its research report on the Contribution of the Not-For-Profit sector, the Productivity Commission noted that overheads were seen as bad by funders but this then leads to underinvestment in planning and evaluation. Likewise while a shift to competitive tendering has seen some greater transparency and some improved efficiency it has also meant greater prescription of how NGOs are to function and deliver services which in turn reduces some of benefits of the Community Sector particularly their capacity to work collaboratively with other NGOs, share ideas and best practice and innovate.

There is also no doubt that funding has consequences for staff attraction and retention and failure to fund for the full cost of service delivery means there is little investment in the ongoing sustainability of NGOs.

NCOSS is aware of many examples where decisions about recurrent funding are not made in a timely manner resulting in uncertainty for clients and staff. Similarly delays in payments are quite common and for some services can create particular problems with cash flow. For example, the Tenancy Advice & Advocacy Program services, have only just received their indexation payments for the current financial year putting pressure on the services in terms of paying their bills and in planning their services.

NCOSS supports contracting processes that recognize demonstrated performance, minimal time requirements, minimal disruption to clients and valuing service and community connections.

Recommendation

That funding take into account the full cost of service delivery including appropriate overheads that allow for investment in the future capacity and sustainability of Community Sector organisations.

8.4 capability frameworks

In considering the future of Community Housing in NSW a literature review showed that international research found a key element of growth was a result of an industry system or network, not just the growth of individual community housing organisations. The capacity of the network overall was as important as individual organizational capacity. The traditional models of capacity building have tended to focus on organizational capacity but this suggests that there is also much to be gained by building network or industry capacity.

Recommendation

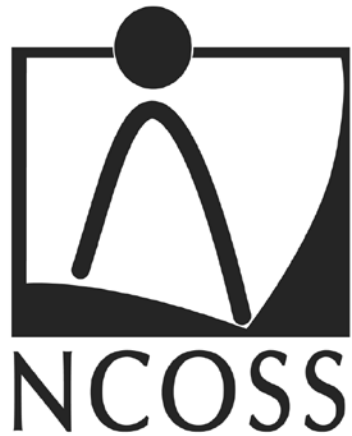
That attention be paid to developing the capacity of Community Sector organisations both at an organizational and at an industry level.

9 Conclusion

NCOSS welcomes this opportunity to contribute to the Inquiry. The NSW Community Sector is a vitally important part of our society and contributes much to the overall wellbeing of people in this state. NCOSS asks that the Committee consider the breadth and diversity of the sector and make recommendations that will allow the Community Sector to continue its necessary and important work in delivering opportunities and an improved quality of life for all people in NSW.

APPENDICES

- A. The NSW Community Sector Charter
- B. NCOSS Submission on the Draft DHS Procurement Policy Framework



Working Together for NSW: Good Funding Policy and Practice

**Council of Social Service of NSW (NCOSS)
July 2006**

What makes a good funding policy?

The purpose

The purpose of this paper is to establish fundamental principles and good practice guidelines that can be applied to funding policies across human services departments in New South Wales.¹

NCOSS also seeks to situate funding policy within the framework of *Working Together for NSW*, the agreement between the government and the community sector. *Working Together* is a negotiated framework that seeks to guide and build a stronger relationship between government and the community sector in the interests of disadvantaged people and communities.

Funding policy is central to the way in which this agreement is implemented, particularly as it relates to recognition of the role of NGOs in the development of social policy priorities; their participation in human services planning and evaluation; the building of constructive relationships between government and NGOs (including consultation about matters that affect them); and the recognition that NGOs have their own organisational goals to pursue as well as fulfilling the government objectives they are funded to meet. The agreement also recognises the challenges faced by small organisations working in disadvantaged communities and the need to enhance the capacity of community sector organisations through “streamlined and appropriate funding practices”.

Funding policy is a litmus test of how seriously *Working Together for NSW* is being taken by government and its willingness to commit to the principles contained within the document. Good funding practices have the capacity to enhance outcomes for the people and communities of NSW, assist government to achieve its social policy objectives, and strengthen the capacity of non-government organisations to deliver high quality services to meet community needs. Governments also need to ensure that any changes to funding policies do not have unintended consequences for the viability of NGOs and their capacity to deliver what is needed by consumers and in the local communities in which NGOs operate.

¹ While the paper has been developed in response to concerns about the funding policy developed by the Department of Community Services, NCOSS acknowledges that many of the issues addressed here arise in practice in many other government departments and that the directions being taken by line agencies are driven by central agency (Treasury/Cabinet Office) concerns about accountability and results. DoCS has at least attempted to articulate what its funding policy is and how it will be implemented.

The Context

Funding ‘reform’ in NSW is not occurring in isolation. It is part of a long-term international trend of micro-economic reform that has seen governments shift partially out of the Welfare State mode of service support into a market based approach to the delivery of human services. This shift has been most noticeable in the United Kingdom, in the United States, in Canada, in New Zealand and in Australia.

The marketisation of human services, competitive tendering and their impacts on the nature of services and relationships between them, has been a cause for concern at NCOSS since the mid-nineties. While we have not seen a wholesale switch to competitive funding practices, we have seen more clearly an approach to service delivery in which government seeks to control what is provided (not unlike the Welfare State) but to distance itself from the risks and responsibility of provision.

Since the late nineties the Federal Government has led the way in contracting out services previously delivered by Government (e.g. Job Network); in promoting private provision of services through funding models based on payments for individuals rather than operating costs (schools, child care); and in farming out the contractual process itself to a “middleman” through a lead agency or consortium approach (Stronger Families; Communities for Children; Children’s Services Professional Support). These shifts have been accompanied by:

- more complex funding agreements and contractual arrangements;
- increased levels of accountability to government (but not to communities);
- an increased focus on governance and administrative arrangements;
- outcomes based funding that has the capacity to skew the client base (e.g. Job Network agencies may prefer the “easy” clients to the long term unemployed);
- increased provision by “for profit” agencies, some of whom have their shareholders as their first priority (corporate child care) and who are not accountable to their communities; and
- a preference for lead agency or consortia models of service delivery that make it easier for governments to deal with fewer agencies but may result in small services losing their voice, in more standardised approaches to service delivery, and in the loss of local community input to service planning and delivery.

As NSW moves to adopt some of these approaches, it is time to re-examine what the roles of government and of the community sector are, and how they can be better captured in a funding policy that really reflects the *Working Together for NSW* agreement. NCOSS accepts that the NSW Government has moved to focus on the managed market approach and that there will be times when contestable funding processes will be the appropriate way to proceed – for example where large amounts of new money become available for new types of services and it is unclear who might be the best providers. However, we also believe that those situations are the exception to the rule and that funding policy is better grounded in planning, collaboration and negotiation to add value to renewable funding arrangements than in the manipulation of partnerships or competition.

Funding Principles

Working Together for NSW outlines the principles that should “enhance the quality of processes and outcomes in the funding relationship between government and non-government organisations.” They are:

- Value for Money
- Fairness, Integrity and Transparency
- Cooperation
- Diversity
- Consistency
- Probity
- Coordination

How do these principles translate into action for both the community sector and for government?

1. Value for money

Value for money is talked about in *Working Together* as the “best mix of services to meet community needs within available funding and selecting the mix of resources that delivers the best possible outcomes to clients.” It is not about purchasing the cheapest service or limiting the range of services to be provided.

Within the community sector there is a strong sense that many of the assets that the community sector brings to a project or service are not counted in as part of their proposal in a competitive expression of interest. While some large charitable organisations may be able to demonstrate and cost an in-kind contribution based on their ability to leverage private funds, smaller organisations have a different but equally valuable in-kind contribution to make.

In the Canadian funding code, “A Code of Good Practice on Funding”², these are acknowledged as including “access to networks, knowledge of specific issues, expertise in service delivery, ability to promote equality and social inclusion”. The Canadian Code goes on to suggest that these assets and the value of the voluntary sector should be costed into proposals where they are seen as integral to a project.³ We would suggest that they should also be costed as an in-kind contribution in relation to Value for Money assessments as a means of more realistically reflecting what local and specialist organisations can bring to the table. Currently most expressions of interest or competitive tendering processes leave no room for such considerations. Other value adding benefits may include capacity to enhance existing service delivery, long term collaboration between local services, local knowledge and input to management, and provision of “best practice” models.

² Voluntary Sector Initiative (Canada), A Code of Good Practice on Funding; Building an Accord Between the Government of Canada and the Voluntary Sector, October 2002

³ Ibid, p.13

Value for money, including all of the above, does not, of course, only apply in competitive funding situations. It is equally applicable in performance based assessment for renewable program funding. This makes it all the more important that the real value of an organisation is recognised, acknowledged and assessed, above and beyond the dollar cost of operating the service.

2. Fairness, Integrity and Transparency

This principle is about ensuring that “the government funding system is and is seen to be accessible, appropriate and fair.” Some of the current concerns about these issues could be overcome by:

- Involving stakeholders upfront in integrated planning for government programs;
- Implementing a better communication strategy with the community sector that clearly outlines the purpose of funding programs including the nature of the services required, who is eligible to apply, the information required from services if the process is competitive, clear selection criteria and how they will be weighted, and an information process with clear timeframes;
- Providing clear and relevant information and data;
- Transparency of population planning techniques to ensure services are delivered equitably and according to need;
- Providing clear, proportionate and non-burdensome performance and accountability procedures;
- Ensuring that all rules and processes are made available upfront in plain language and are understood by all relevant government officers as well as service providers.

3. Cooperation

“Government agencies and non government organisations will work to promote a funding relationship based on reciprocity”

Cooperation is probably a better description of the relationship between government and the sector than partnership which is fraught with different interpretations. Cooperation recognises that both want to achieve the same outcomes for people and communities and are willing to work together to achieve them. It will involve:

- Joint planning exercises at all levels (State, regional, local);
- Joint research and training;
- Mutual respect for each other’s ways of working;
- Sharing of information; and
- Working together to improve service delivery through planning, quality improvement, building service capacity and dissemination of information about practice issues.

Cooperation should never be confused with cooption.

4. Diversity

While *Working Together for NSW* recognises diversity as “embodying the recognition of diversity in community in funding administration practice”, it needs to encompass much more than that. The DoCS Funding policy does acknowledge an aim to “support and strengthen the diversity of the community services system as well as partnerships and linkages between providers.”⁴ In this context it is talking about the complementary roles of government, non-government not for profit, and for profit, private service providers. It later talks about diversity in terms of meeting the needs for culturally appropriate services for Aboriginal and Torres Strait Islander people and for people from a Culturally and Linguistically Diverse background, and it mentions the need to support small organisations.

Diversity, however, is also about maintaining a range of accessible services; locally based and run services as well as large charitable service providers; different models of service that meet different needs; and ensuring that no one type of service or service provider dominates the system. It should also take into account the difficulties of service provision in rural and remote areas of the State and aim to ensure more equitable provision of high quality services in all locations.

If diversity is to be retained then we will also need to find some way of measuring that diversity and reporting on it. NCOSS is particularly concerned to ensure that the promotion of diversity does not ultimately promote increased provision by the for profit sector, particularly in areas where it has no track record. When departments are looking at ways to reduce the number of agencies/projects they fund, they should not be seeking to support the development of expertise by new players.

At the same time we would want government to be looking at how better to support existing services, in particular small to medium sized services, “to ensure that eligibility and funding practices do not create unintended barriers for smaller organisations with limited resources.”⁵

While encouraging partnerships and consortia may be one way to do this, it may not be the only answer for many small services seeking to preserve their independence, their innovative or specialist practice, and their existing relationships.

5. Consistency

This principle stipulates the need for funding administration procedures to be consistent “within programs, across individual agencies, across government and as grant programs evolve.”

Consistency and streamlining of accountability were indeed the two prime motives for undertaking the Review of Grants Administration. Services with multiple agency funding are wilting underneath the range of accountability mechanisms, standards regimes,

⁴ Department of Community Services (DoCS) Funding Policy, pp8-9

⁵ Voluntary Sector Initiative (Canada), Code of Good Practice on Funding, p.14

application processes, data collection systems etc. The Standard Chart of Accounts for community organisations developed by the Queensland University of Technology has involved a partnership between the Queensland Government and community sector agencies and is now supported by all stakeholders in that state. Similar standard accounts are used in Canada and the UK. This represents just one area in which the NSW Government and the sector could make significant progress to mutual benefit, and work has begun to realise that outcome under the “Working Together” implementation.

Organisations need to be able to access clear and precise information about both the funding process and timeframes involved; work to realistic timeframes that ensure the best possible proposals are put forward; and work with common elements across government agencies in relation to standards, data and application procedures.

By the same token, many NGOs have developed their own sophisticated systems that are more rigorous and more informative than those required by government. Whatever is developed in the name of consistency must allow for these to continue and be integrated in a coherent way.

Governments need to ensure that their own agencies work collaboratively to achieve consistent and coherent funding practices in order to maximise integrated planning and minimise duplication of processes.

While it is important to have consistency in approaches to accountability, it is equally important to be flexible and to match accountability requirements to the capacity/size of organisations. NGOs would argue that they are already undertaking quite onerous accountability tasks in comparison to the reporting of government departments to government, and government to the public.

Monitoring procedures need to be clear and negotiated. They should support quality improvement and not just be limited to monitoring compliance. In all of this, outcomes for clients should be the driving factor in considerations of balancing accountability with flexible, responsive service delivery.

6. Coordination

Coordination is about planning and the need to improve outcomes for people and communities “through better alignment of planning, program design and service delivery within and across both government and non government human services sectors.”

Planning is mentioned briefly in the DoCS Funding Policy but is not given the level of importance and detail that it deserves and requires. Good planning processes at the State, regional and local levels will impact on decisions regarding the types of funding practices that are most appropriate. Coordination should also include relationships with other levels of government – Commonwealth and Local as well as State.

Coordination is often cited as the solution to fragmented services and duplication. While this can be true, and integrated service delivery has been demonstrated to be effective, the

mechanism by which integration is achieved is an important contributor to the outcome. Historically the community sector has been founded on collaboration and existing relationships need to be acknowledged and supported. Competitive practices may “test the market” but they do not necessarily result in the development of true and lasting partnerships. Coordination is better achieved through integrated community services planning, consultation and negotiation that allow services to be tailored to local needs.

7. Probity

The integrity of funding practices is essential to the maintenance of trust between government agencies and funded services.

While the use of external probity auditors is important and useful, processes that are completely internal and do not involve any independent assessment of proposals in a competitive framework, can result in misunderstandings and loss of trust. Probity should never be used as an excuse for lack of transparency.

All funding practices should entail publicly available information in relation to program objectives, eligibility criteria, application processes if applicable, and performance monitoring systems.

The Review of Grants Administration sets out a further three principles – Accountability, which is largely dealt with above; Monitoring and Evaluation and Stability for Client and Communities.

Monitoring and Evaluation involves the development of a series of systems – standards, performance monitoring against agreed performance measures, data collection and planning. All of these need to be negotiated between government agencies and NGOs to promote ownership, ensure consistency across agencies and programs, and to ensure that quality improvement is linked to funding practices in a sensible and reasonable manner.

Ongoing research should also form part of the evaluation process, particularly in those programs where outcome measures are difficult to assess in the short term. This should include the dissemination of research results and joint information and training sessions between government and NGOs.

Monitoring and evaluation should never be simply about compliance with the contract. It must be about encouraging better quality and performance improvement.

Stability for client and community is an important principle that underpins the need to ensure proper planning occurs, to ensure minimal disruption to services to clients in contestable processes (this could in fact form part of the selection criteria), to ensure funds are not wasted on closing down old and opening up new services with little benefit to service users, and to ensure that funding is longer term (at least three years) and sustainable where needs are ongoing.

Funding models

Internationally and in Australia, governments use a range of funding practices and models to deliver programs that meet government priorities in both the short and longer term. Funding models vary according to the outcomes required, timeframes involved, client needs, amounts of money involved, political context and government ideology.

This paper seeks to outline the main funding models in the NSW human services context and to outline the circumstances under which each model is most appropriately used, the benefits they confer and the problems they may create if used inappropriately. In doing this NCOSS is mindful of the need to remember why government has traditionally funded “not for profit” community organisations, and what may be jeopardised by the over zealous or inappropriate application of business processes and principles to the delivery of human services, especially where they are targeted to disadvantaged people and communities.

Renewable Funding

Renewable funding on either a one year or three year basis has been the most common form of core funding for NGOs in NSW, for the past twenty years at least. Renewable funding tends to sit underneath sets of program guidelines, service specifications and contract agreements that are negotiated between government agencies and NGOs, with the expectation that unless an organisation performs poorly or client/community/needs change dramatically, funding will be ongoing.

The benefits of renewable funding are many. It:

- Promotes stability of service provision for clients and communities (see above);
- Promotes the development of expertise and quality;
- Promotes the development of relationships and partnerships between services over the long term;
- Promotes collaboration;
- Is grounded in the identification of client/community needs;
- Recognises NGOs as independent organisations;
- Can promote local responsiveness and flexibility;
- Builds community infrastructure;
- Builds community ownership;
- Enables forward planning.

Longer term funding (3-5 years) would add value to these benefits. In the UK, HM Treasury has produced a set of guidelines for funding agencies that argues strongly for longer term funding on the grounds that it provides greater stability and often better value for money. “Short term contracts can lead to the diversion of valuable third sector resources into bidding for government funds – often from multiple sources – and away from the development and delivery of better services... Annual funding means a considerable level of uncertainty for both funding bodies and providers, limits the ability

of third sector organisations to engage in longer term planning, borrowing and investment, and can put third sector organisations into undesirable financial difficulties.”⁶

While the benefits of renewable funding are clear and this remains the preferred model for the bulk of NGOs, there are also some parameters that need to be observed in its implementation.

Governments are elected bodies and in NSW develop their own priorities at a State level that may at times influence where and how funding is delivered. A corollary of this is that no organisation has a right to government funding. (This is quite separate of course from an organisation’s right to exist!)

Secondly, not all funded services perform well all of the time. Some services may become resistant to innovation and struggle to keep up with changes in policy and practice.

Performance monitoring and review, in conjunction with robust planning and consultation processes, need to be applied to deliberations about ongoing funding of NGOs. The non-government sector in NSW has strongly supported the development of new standards, performance measures, data systems, etc, because they understand and support the need to be accountable for the funding they receive. The development of more streamlined systems would assist in this process.

Currently, both the Department of Community Services and DADHC are working on performance monitoring frameworks and the development of tools for the sector. What is clear is that performance based funding requires new skills to be developed both within government and the community sector, and must be matched by funding regimes that are willing and able to support new systems with increased resources.

Thirdly, needs for certain types of services targeted to specific client groups can and do change over time. The early identification of changes to need and client characteristics should be a feature of a quality planning system in the human services, leading to appropriate and timely negotiation with existing funded NGOs about change.

Where changes to funding arrangements are identified as being needed, the decisions must be made against clear and transparent criteria:

- Have local needs changed?
- Have government priorities changed?
- Can existing services adapt to new needs/priorities?
- Is assistance (for example training, short term consultancy) available to implement change?

Where negotiations fail, transition plans should be put in place for at least three months to ensure stability for clients.

⁶ HM Treasury, Improving financial relationships with the third sector. Guidance to funders and purchasers. May 2006, p.22

The major problem with renewable funding in NSW is the erosion of its value over time, which has resulted in increasing viability and performance issues for many services and programs. NCOSS has previously suggested the need to develop a more appropriate model of indexation for program funding that would help to overcome this historical issue (see Appendix 1).

Current costings exercises within government are revealing the extent of under funding to services and may serve to provide some improved benchmarks for new funding.

The shift to purchasing language has also had an impact on services funded in a renewable framework. The tighter prescription of service specifications, outputs and outcomes to be achieved, can result in services limiting the work they do to those service specifications only, and in advocacy and community development work not being funded. In turn, this can impact on the independence and identity of the service.

One-off or time limited funding

(This can include non-recurrent and project funding, etc.)

One-off funding is commonly used to fund short term projects or outcomes. It is most usefully implemented in situations where there are no expectations of ongoing commitment or recurrent funding implications. This method is often used to provide:

- Innovative service models to test effectiveness;
- Funding planning or research for a particular purpose;
- Capital improvements;
- Conferences;
- Special needs projects; and
- Emergency funds for viability (e.g, where services may be about to fall over).

Of real concern to NGOs, however, is the continuing practice of one-off funding for pilot programs that are successful but then are either not picked up (even when producing good results) or are expected to find ongoing recurrent funding from another source.

Time limited project funding can enable services to undertake particular tasks or programs over the short term. It can be a useful adjunct, therefore, to renewable funding. However, the increasing use of project funding as an alternative to renewable funding can have major impacts on the viability and performance of NGOs. Some of the consequences of this are:

- Raised expectations in the community for an ongoing service or activity that cannot be met;
- Severe disruptions to service provision for clients;
- Financial implications for supporting core work (organisations can become volatile if subject to the ups and downs of project funding);
- Financial impact on organisations of redundancy provisions for staff once a project comes to an end (where it is for more than a year, for example);

- Mission drift in the search for project funding even if not relevant to the organisation's core business; and
- Instability for staff.

“Mysterious” funding – monies that appear at times of political pressure or to fund an “idea” or unallocated/unspent funds at the end of the financial year - also often falls into the one off category. In principle this is problematic as it is usually not linked to any kind of planning and is rarely the result of a transparent process. However, most NGOs would acknowledge that it can be useful if and when they are the beneficiaries!

Direct negotiations or direct allocations

Both the Department of Community Services and the Department of Ageing, Disability and Home Care have processes in place to directly negotiate (or in the case of DADHC, allocate) funding to particular services in particular situations.

This can be a useful way to proceed where:

- There is only one obvious service provider in a region;
- There is a new service required but only one local service likely to take it up;
- There is a need for a specialist or culturally appropriate service to deliver the program;
- The autonomy and identity of the agency being contracted is respected;
- There is transparency in the negotiation and the expectations of the contract are clear; and
- The new service/funding is linked to planning/needs identification.

Concerns arise around this type of funding where:

- It is used to change auspicing bodies without local input;
- It is not linked to identified needs;
- It is used to invite new organisations into an area without input from local services.

Competitive tendering

While full tendering processes in the human services area seem to be limited to the Federal sphere, at the State level contestable processes are becoming more frequently used. Expressions of Interest (EOIs) are seen by government as the process to use to ensure it has control of services being purchased in its name, to ensure fiscal responsibility is exercised (value for money) and to ensure that it is publicly and transparently accountable for public monies. They are usually used in situations where there are large amounts of new money (e.g. the Early Intervention Program in DoCS); completely new types of services are required to be provided, or services are required to be provided differently; or where there are no obvious providers or different providers are being sought.

Given the nature of human services and the traditional role played by NGOs in delivering those services over many years, however, NCOSS believes that contestability should be

limited in its application and that more appropriate processes should be implemented in the first instance. Local and regional planning and negotiation with existing service providers should be the first step in distributing funding, whether new or existing, and expressions of interest seen as a last resort process where agreement cannot be reached.

Those who espouse contestable processes claim that they are useful in order to “test the market”, and may result in discovering new service providers or new models of service. However, the reality is that we already have enough service providers in most areas (not all, especially rural and remote) facing funding shortages that jeopardise their viability. Supporting existing providers and stabilising service infrastructure should be a priority rather than seeking new, sometimes inexperienced or unfamiliar, agencies. Moreover the “new models” and innovation sought by government are often countered by prescriptive service specifications and contracts that limit rather than expand the horizons of service delivery.

A mix of competitive tendering and short term funding (1-3 years), can often result in a parachute in, parachute out approach with few long term outcomes.

It is also claimed that contestability helps to lower the costs of service delivery and to ensure economies of scale. However, lowering of costs can also equate to lowering of quality or less service, and economies of scale can result from the delivery of standardised models that do not reflect local needs. Assumptions that large organisations have better governance and finance arrangements than small organisations often underpin decisions based on costs. However, these are frequently untested and often arise because the full value of small/medium sized services is not taken into account. (see Value for Money above).

Some of the unintended consequences of contestability also include:

- Loss of trust between government agencies and providers;
- Loss of trust between service providers themselves;
- Loss of local decision-making and ownership of programs;
- Loss of the “extras” that are not directly purchased (e.g, community engagement, advocacy, networking, volunteers);
- Funding may be given to the best written proposals from possibly less experienced or expert providers. The best written proposals do not necessarily indicate the most suitable applicant;
- Inefficiencies caused by the deflection of staff to writing funding proposals rather than providing services and the costs involved;
- The process **may** work against the purpose – in the search for integration, for example, a competitive process may result in more division than collaboration; and
- Information and research may not be shared as easily or openly in a competitive environment.

Where expressions of interest are pursued, the market rules that apply need to be fair and transparent. Good communication is required from government about expectations of

organisations in the tendering process and education and training may need to be provided.

A fair process should also include the development of selection criteria that give small/medium sized organisations the opportunity to be successful, and recognising their particular expertise.

Existing selection criteria tend to favour large organisations because of the weighting towards governance and finance. There is no opportunity afforded in the selection criteria to build on an organisation's history and demonstrated commitment in a local area or region; to value existing relationships/networks/community trust; or to cost some of the extras that local organisations bring (volunteers; existing venues and services; community engagement). Future EOI processes should include scope for these assets to be not just included but counted.

Individualised funding

Funding allocated to particular individuals or allocated on the grounds of eligibility can present particular problems in terms of the overall service system but have been found to be important in particular circumstances. Areas in which this type of funding are most frequently used are disability, child care and aged care. It is important to separate out the types of individual funding though, in order to understand how these different mechanisms can impact on the broader service system.

In disability services there is probably the most cogent argument for funding allocated directly to individuals, often with access to a broker who can assist in the purchase of the most appropriate services and programs. Where people with disabilities have complex and changing needs, individual funding can be used to develop a suite of services personally tailored to the individual. This overcomes the problem of group service delivery where individual needs are different and may not be able to be met by standardised services or programs. The most important aspect of this funding is that it should be portable so that the funding moves with the individual as their needs and programs change. The Attendant Care program in NSW probably comes closest to this model.

In order for individualised funding to work effectively, it must have the following characteristics:

- Links to quality improvement and standards (including OH&S)
- Planning and matching of service provision
- Flexibility
- Efficiency
- Individual decision-making (and the capacity and support to undertake this)
- Portability
- Accountability

It is also critical that the funding is used to support and improve service infrastructure rather than to undermine it or to replace it. Community Options, for example, has been helpful in extending the range of services available in the HACC program.

Specific pools of funds allocated to people who meet certain identified criteria (e.g. Taxi Transport Subsidy Scheme; affordability relief in child care) are also useful in supporting existing service infrastructure. For example the taxi subsidy scheme can support individuals to access other programs they need and fee relief can assist low income families to access child care services they otherwise could not afford.

The most problematic form of individualised funding is the voucher. While this model is little used and there is little evidence to suggest it should be, it is increasingly being put forward in some sectors as the best means of ensuring self-determination and choice for service users. It has been suggested for example, that where clients have complex and/or changing needs, vouchers provide the necessary flexibility and portability to change programs and services as needed.

NCOSS has serious reservations about the use of vouchers given their potential to distort the service system⁷; the limits of the choice argument (once some people have made their choices, what choices are left for those who follow?); the ease with which vouchers can erode in value over time; the potential for a voucher system to isolate service users and mask their needs; and the potential they provide for government agencies to abdicate responsibility for the provision of services. A recent analysis of the application of vouchers to the education system has concluded that it is most likely to be detrimental to students from low socio-economic backgrounds and “could lead to lower levels of educational achievement and an increase in inequality of education outcomes.”⁸

While advocates of individualised funding and vouchers raise some essential questions about the current availability of person centred services, empowerment and individualised planning⁹, it is unclear whether these mechanisms are the only solutions. The current failure of the service system to deliver individualised plans and programs is probably the most cogent rationale for the application of a voucher system or individualised funding packages to people with disabilities. It could be argued, therefore, that if the service system were to address individual need in a more responsive and tailored manner, the call for individualised funding could be greatly reduced. This of course raises the importance of integrated case management and brokerage, and services being assisted to be of the highest quality.

One of the few studies of the impact on consumers of both contract and individualised funding models comes from Alberta, Canada, and reached the following conclusion:

⁷ For example, in education, the use of vouchers can create a two tiered school system by undermining the support for public schools.

⁸ Andrew Macintosh and Deb Wilkinson, *School Vouchers. An evaluation of their impact on education*. The Australia Institute, July 2006, pp.10-11

⁹ Vern Hughes, *The Empowerment Agenda – Civil Society and Markets in Disability and Mental Health*, Institute of Public Affairs, IPA Backgrounder, February 2006, Vol. 18/1

Both contract and IF-funded services demonstrated that they result in equally individualized service on average. Service constraints were often related to community or organization size, or how size interacted with funding source. Those consumers whose needs for support change frequently were perceived to be better served using IF. Therefore, it appears that both funding models have their place in achieving quality services.¹⁰

¹⁰ Kathleen K. Biersdorff, Service Funding Models and Individualization of Services, Rehabilitation Review, Vol 13, No.3, March 2002

Funding Practices

Practice	Purpose	Process	Performance Management	Time period
Renewable funding	Continuation of existing programs	Regular review based on results, relevance of needs and capacities of local human services system	Negotiated output and outcome measures; Implementation and maintenance of quality measures; Financial reports	3 year contracts with renewal
Contestable funding	Introduction of new programs	Planning and negotiation moving to Expression of interest within a managed market	Negotiated output and outcome measures; Implementation and maintenance of quality measures; Financial reports	Up to 3 year contracts then extension based on renewable funding practices above
Individualised	Specific assistance direct to specific individuals	Eligible individuals apply	Expenditure of funds on eligible services	Relevant time period tied to each program
Direct negotiation	Introduction of new programs and/or continuation of projects in an existing program	Direct negotiation by funding agency with intended recipient NGO(s)	Negotiated output and outcome measures; Implementation and maintenance of quality measures; Financial reports	Up to 3 year contracts then extension based on renewable funding practices above
One-off project	Innovation and testing of new ideas or emergency assistance	Expression of interest within a managed market or direct negotiation	Negotiated output and outcome measures; Implementation of quality measures; Financial reports	Time limited

Conclusion

It is essential that the *Working Together for NSW Agreement* between the NSW Government and the NGO sector in New South Wales is used to put more effective and more collaborative processes into practice for the benefit of the citizens of NSW. Funding policies are critical to the continuation of trusting relationships, accountability, effective service delivery and best practice in our service systems.

This paper has proposed some preferred models for the funding of the human services system in NSW and the reasons for their adoption across government agencies. NCOSS hopes that it will be the basis for discussion of funding practices through the implementation of *Working Together for NSW* and for a more integrated approach to planning for human services across the State.

Appendix One

Excerpt from the **NCOSS Discussion Paper on NSW Funding Indexation for Non-Government Organisations – Current Approaches**, by Kylie Woodward.

The development of a funding indexation policy will not be a simple process.... Problems of inconsistency across agencies and organisations beg the question of whether the proposed policy should be simple and all inclusive, or comprehensive and flexible. The joint Commonwealth/State funding programs may prove to be somewhat problematic. There are a number of reasons for opposing the use of efficiency dividends for the indexation formula.

There are advantages and disadvantages associated with both simple and comprehensive (but flexible) approaches to funding indexation. An example of a simple policy is the Western Australian indexation policy, it covers State only recurrent funding programs, using an 80:20 cost structure split and has no exceptional circumstances clause and no efficiency dividends.

Potential advantages of a simple approach:

- Would ensure that all NGOs (with recurrent funding) will receive the same indexation level, regardless of which agency is funding them, reducing inequities across policy areas.
- Agencies will be receiving the approved indexation level from Treasury for funding programs
- Would, in theory, mean that the approved indexation level is adequate for *a majority* of organisations to cover yearly cost increases.

Potential disadvantages of a simple approach:

- The agreed indexation formula could be inadequate for *most* organisations, if it uses bottom line or inappropriate index measures (such as the state wage cost index).
- Some areas within the human services sector may face greater cost increases in a year than other areas, due to exceptional circumstances (for example work cover premium increases for high risk services).
- There are areas in the human services sector that have different cost structures, so organisations from those areas may still remain under-funded. For example, disability services tend to have a 90:10 wage to operating costs.
- The indexation policy may not apply to grants that are continued.

Where the choice of indexation level is concerned, the obvious choice would be to use a wage cost index that is higher than the safety net wage cost index, such as the public sector wage cost index. However, this may be an unrealistic expectation in terms of availability of funds, as the State's budget has been tighter in recent years.

It is safe to say that a NSW policy for indexation would ideally also cover joint State/Commonwealth funding programs, as Tasmania's policy does. This, however,

creates another challenge for the sector, as either the Commonwealth or the State must agree to make up the differences in indexation. For NSW this could be a much larger figure than for Tasmania.

The use of efficiency dividends for funding is a problem for funding for NGOs (NCOSS, 2004), so an indexation formula for NSW should *not* include efficiency dividends. VCOSS has opposed the productivity cuts that the DHH has applied to indexation as a part of their Service Agreements (VCOSS, 2003 and 2004). There are both principled and pragmatic reasons for not applying efficiency dividends to funding for NGOs.

For many years the community sector has been arguing the case against efficiency dividends. In 1997, the Commonwealth government intended to impose six percent efficiency dividend cuts to funding over four years, under the Commonwealth State Disability Agreement. At that stage it was argued that:

...under the more deregulated wage fixing system of recent year, wage increases prompted by flow-ons from government wage increases have meant that caring organisations received considerably less in indexation than real wage movement. In one year for example, at the Spastic Centre of NSW, unavoidable and long delayed wage increases of five percent were met, despite a mere 1.2 percent indexation increase. (Alcorn, 1997:12)

The Australian Council of Social Service (2002) condemned the use of efficiency dividends within the Commonwealth State Housing Agreement brought in 1996.

The application of efficiency dividends to funding is particularly harsh on small NGOs. There are a large number of human services NGOs that operate on very small budgets, many have fewer than five staff members. Such small organisations have no room in their budgets to make efficiency savings, without reducing staff hours and therefore services.

On a more theoretical level, it can be argued that human services in general struggle to make efficiency savings. Bradbury (2002) points out that the Community Services sector requires “human interaction”, therefore will always require a “human to interact”. This results in a lack of productivity growth (in general and in association with wage increases). Productivity growth in other sectors often lead to a growth in living standards for all, which inevitably increases the real price of services. “Economic theory suggests wage growth in service industries, and human services in particular, will run well ahead of productivity growth in that sector” (Bradbury, 2002: 3). The VCOSS Position Paper on funding indexation (2003) sites an unpublished report by KPMG that found that indeed there is little or no capacity for productivity savings or efficiency dividends within the funded sector.

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