



Working Together for NSW: Good Funding Policy and Practice

**Council of Social Service of NSW (NCOSS)
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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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