



Brotherhood
of St Laurence

Working for an Australia free of poverty

A stronger, more diverse and independent community sector

Submission to
Department of Social Services

Brotherhood of St. Laurence

November 2023

Brotherhood of St. Laurence

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Executive summary

The Brotherhood of St. Laurence (BSL) welcomes the release of the *A stronger, more diverse and independent community sector* Issues Paper. It provides an opportunity to contribute BSL's 90+ years of experience and knowledge as a social justice organisation working alongside people and communities experiencing disadvantage to address the fundamental causes of poverty in Australia.

BSL's vision is for a better relationship between government and the community sector that:

1. is effective in reducing disadvantage
2. involves a meaningful partnership between government and community sector organisations (CSOs)
3. is committed to and values lived experience and self-determination with CSOs playing a critical role in supporting participant voices
4. recognises the real cost of service delivery over time
5. minimises unnecessary administrative burden and complexity
6. is easy to navigate and inclusive of all organisations as well as community members.

The community sector plays an essential role in supporting more Australians to live the lives they aspire to. There is now an opportunity to mature the relationship between government and the sector to improve service quality and benefit participants. In this submission, BSL offers constructive and practical recommendations in two broad areas. **First**, we propose a way forward for building a more meaningful and sophisticated partnership between government and the sector (responding to focus areas 1, 4 and 5 in the Issues Paper). **Second**, we advance recommendations to make the financial relationship between government and the sector more equitable by recognising the real costs of delivering quality services over time (responding to focus areas 2 and 3).

Specific recommendations are summarised in the table below.

Recommendations – A more meaningful relationship between government and the community sector

<p>Recommendation 1: Strengthen government-sector partnering in policy development and system change by developing a wider range of consultation processes including joint policy roundtables, targeted government consultations and joint policy workshops and seminars.</p>
<p>Recommendation 2: Adopt sourcing, tendering and contracting practices that enable collaboration rather than competition, and involve local communities and the community sector in the grants process through collaborative commissioning.</p>
<p>Recommendation 3: Include in government grant guidelines the provision to fund enabling organisations in addition to direct service delivery roles, to facilitate collaboration, shared system learning and place-based governance. Enabling organisation functions can include communities of policy and practice and community investment committees.</p>

Recommendation 4: Government should write grant guidelines that include provision for funding of mechanisms to support lived experience and community feedback to inform program service design, implementation and improvement.

Recommendation 5: Government should routinely share data on service outcomes and information collated from multiple providers, to help communities and CSOs assess impact, inform policy and service improvement, research and advocacy, and identify where there is additional need. Rather than just being used for compliance purposes, this data could inform co-design, model iteration, practice innovation and accountability back to communities.

Recommendation 6: Ensure government funding processes are made easier for small organisations to access by extending the length of request for tender (RFT) periods, holding clear information sessions, and offering support on reporting systems and templates.

Recommendation 7: That government provide dedicated funding for capacity building of Aboriginal Community Controlled Organisations (ACCOs) based on an assessment of capacity-building needs led by First Nations Communities and ACCOs.

Recommendations – Recognising the real cost of service delivery

Recommendation 8: Extend grant funding to cover service improvement beyond direct service delivery, including research, evaluation, workforce or sector development, benchmarking and sector collaboration.

Recommendation 9: Commit to funding full administrative costs associated with grants (including redundancy costs where service contracts cease).

Recommendation 10: Identify areas where administrative burden and costs of grant implementation and compliance can be reduced, including reporting and contract variations.

Recommendation 11: Introduce an explicit and transparent formula for indexation to ensure grants continue to fund the real cost of quality services, drawing on the Victorian Government model.

Recommendation 12: Indexation increases should be forward-looking to enable accurate budgeting and considered spending. In practical terms, indexation should be provided in the first quarter of a new financial year to allow organisations to plan service delivery for the full financial year.

Recommendation 13: The productivity offset should be reduced or removed from the indexation formula in recognition that productivity gains in service delivery are more difficult to achieve than for other sectors of the economy and are typically realised in the form of quality improvements rather than cost reductions. Alternatively, if a productivity offset is retained, it should be made transparent in the indexation formula advocated above.

Recommendation 14: Introduce a default seven-year contract term as recommended by the Productivity Commission in their 2017 *Inquiry into Human Services*, with a minimum six-month advance notice of decision on contract renewal.

Recommendation 15: Enable shorter term grants in specific circumstances, including one-off time-limited projects, and pilots and trials to inform longer-term initiatives.

The Brotherhood of St. Laurence

The Brotherhood of St. Laurence (BSL) is a social justice organisation working to prevent and alleviate poverty across Australia. Our purpose is to advance a fair Australia through our leadership on policy reform, our partnerships with communities and the quality of our services. BSL's approach is informed by people and communities experiencing disadvantage and uses evidence drawn from our research, together with insights from our services, to advance practical solutions.

This submission responds to the Department of Social Services (DSS) Issues Paper¹ and has two broad themes. The first theme is supporting meaningful partnership and sector voice, CSO diversity and partnering (responding to focus areas 1, 4 and 5 in the Issues Paper). The second theme is grants and indexation (responding to focus areas 2 and 3).

For the purpose of this submission, we use the definition of CSOs adopted in the Issues Paper, defined by the Australian Taxation Office (ATO) as:

... organisations that are not-for-profit and established for community service purposes, which provide for the wellbeing and benefit of others. CSOs promote, provide or carry out activities, facilities or projects for the benefit or welfare of the community or any members who have a particular need by reason of youth, age, infirmity or disablement, poverty or social or economic circumstances.

1 Supporting meaningful partnership, CSO diversity and partnering

The community sector is facing growing demands and increasing complexity. Community need, poverty and disadvantage are increasingly multi-sectoral and intergenerational. In this context, there are ways that government could work differently – and better – with the community sector to improve service delivery and increase wellbeing. Based on BSL's experience this includes:

- extending partnership to both policy development and service delivery
- promoting collaboration and co-production
- funding enabling organisations
- strengthening the voice of participants
- improving sharing of information and data
- providing support and capacity building to smaller CSOs
- supporting Aboriginal Community Controlled Organisations (ACCOs).

These are each discussed overleaf.

¹ Australian Government, 2023a, *A stronger, more diverse and independent community sector*, Issues Paper, Canberra.

Promoting partnership in both policy and services

The Issues Paper is focused on strengthening the community sector to support joint service delivery: ‘The Australian Government is committed to supporting and strengthening the sustainability of the community sector so together we can continue to deliver services that improve the wellbeing of individuals and families in Australian communities.’²

BSL supports this aim, however it is also important to recognise service delivery and service design is shaped by underpinning policy frameworks and systems. The community sector can be a valuable partner to government in the policy development process. This includes helping to identify problems, clarify policy objectives, develop and assess alternative policy options, and refine preferred policy directions. Although final policy positions and decisions are determined by executive government and parliamentary processes, BSL believes policy outcomes can be improved by strengthened government-sector partnership and engagement.

This is consistent with the directions recommended in the Independent Review of the Australian Public Service (2019)³, for the Australian Public Service to: ‘Harness external perspectives and capability by working openly and meaningfully with people, communities and organisations, under an accountable Charter of Partnerships’ (Recommendation 8). The Review recommended: ‘all agencies to draw on diverse and rich community and partner insights in advice to Government’.

Some engagement mechanisms are currently in place to seek community sector input to policy design – for example parliamentary and departmental inquiries and submission processes – however these have a number of limitations including:

- Processes tend to be formal, with a question-and-response dynamic rather than a two-way exchange of ideas and expertise.
- Inquiries and submissions can be subject to short timelines that limit the quality of input from the sector.
- The volume of formal inquiries can stretch the resources even of large CSOs to engage in a meaningful way.

BSL considers there is scope to enhance partnering in the government-sector policy process by expanding the range of engagement avenues. This could include policy roundtables to examine high priority policy areas that draw on expertise from departments and community sector organisations (CSOs) at an early stage in the policy process; targeted government consultations with CSOs that have specific skills and expertise; and greater use of joint government-sector workshops and seminars exploring important policy problems and options. Mechanisms from this wider list of engagement tools could then inform more formal processes including inquiries, submissions and budget processes.

² Ibid.

³ Department of the Prime Minister and Cabinet, 2019, *Our Public Service, Our Future. Independent Review of the Australian Public Service*, Canberra.

Recommendation 1: Strengthen government-sector partnering in policy development and system change by developing a wider range of consultation processes including joint policy roundtables, targeted government consultations and joint policy workshops and seminars.

Promoting collaboration and co-production

The challenges of competitive tendering

Competitive tendering can be an appropriate tool for procuring service delivery when there is a clearly specified service need that is readily available from a competitive market, and the buyer (in this case, government) is seeking the highest quality service for the lowest cost. However, services that address complex and entrenched disadvantage do not typically have these characteristics. There is rarely a standard pre-designed service that will work in every setting that can be selected from a catalogue and submitted to a lowest-price tender contest. Rather, quality services are bespoke – they must be tailored to local contexts and address interrelated challenges across economic, social, cultural and geographic settings.

In these settings, competitive tendering, sourcing and contracting is unlikely to deliver high-quality outcomes – for government, service providers or local communities. Indeed, simple price competition between providers can worsen system fragmentation and prevent agencies from working together to achieve better outcomes.⁴ There are too many examples where collaboration between services providers is inhibited by contracts or by a view that collaboration is anti-competitive.

BSL's experience suggests adverse outcomes can emerge when competitive tendering is inappropriately applied to complex service design and provision, including:

1. **Inhibiting innovation and service quality** – by reducing incentives for suppliers to partner and share lessons or best practices which could lead to adaptation and innovation, as well as preventing consideration of different methods of delivering services in favour of more standard but less innovative approaches.
2. **Reducing service coordination and risking duplication and gaps** – inflexible contract terms inhibit service coordination, collaboration and referrals, as providers feel constrained to spend time only on 'core' funded activities and avoid allocating time and resources to coordination and cooperation. In addition, unnecessary promotion of competition between providers can heighten concerns about protecting intellectual property and lead to defensive behaviour.
3. **Reducing diversity of providers** – competitive tendering can favour large providers with multiple government contracts and the ability to devote significant resources to tendering processes over smaller providers embedded in their local communities.
4. **Disrupting local networks and social capital** – CSOs build social capital, relationships, deep local knowledge, trust and networks. Tendering processes that do not value existing

⁴ Brotherhood of St. Laurence, 2017, *Reforms to human services: Response to the Productivity Commission*, Melbourne.

community connection can disrupt these relationships and erode this store of social capital. For example, the recent retendering of Transition to Work (TtW) providers resulted in a change of provider in 80% of employment regions, with 71% of regions having a complete turnover of providers. Fifty-one per cent of previously contracted providers did not secure a contract in the tender process.⁵

The benefits of collaborative commissioning

Collaborative commissioning is an alternative approach to purchasing services that is better suited to complex settings of economic and social disadvantage. It seeks to maintain contestability; however, it also has a focus on harnessing collaboration among suppliers of services and with local communities, and introduces co-production between government and providers.

The Independent Review of the Australian Public Service (2018)⁶ noted the importance of government taking a more collaborative approach to commissioning, particularly in the context of place-based approaches to address intergenerational and multidimensional disadvantage. It recommended: ‘joint decision-making with communities and other levels of government on designing and implementing policies and services’, and ‘flexibility, including through funding arrangements, to cater for the different needs and opportunities in particular communities.’

Collaboration

Grant design can incentivise and enable collaboration between providers, as well as with other community organisations or networks. This can be done by allocating sufficient funding in grants specifically for integration where providers are expected to collaborate. This includes providing resources within provider contracts to support collaboration as well as funding an enabling organisation to perform a coordination and convening role.

Grant criteria and contractual Key Performance Indicators (KPIs) can also be used to incentivise collaboration and integration. This includes valuing the existing networks and collaborations CSOs have within communities more strongly in grant criteria. It can also include encouraging and enabling CSOs to apply for funding in consortia or collaborative networks.

An example of collaborative commissioning is in BSL’s work with the TtW National Community of Practice, which was commissioned by the Commonwealth Government as a ‘collaboration focused market’ to encourage employment service providers to collaborate. This collaboration took place across regions and in two directions, namely collaboration between providers and other support services (local council, education providers and employers), and collaboration between providers. This enabled providers to share service expertise, develop new skills, improve practice, collectively solve problems and generate innovative ideas and solutions.⁶

⁵ NESAs, 2022, *Transforming the youth employment landscape*, Presentation to NYEB, 24 May, NESAs correspondence, 24 March 2022.

⁶ Bond and Keys, 2020, *Finding that spark What works to achieve effective employment services for young people?*, Report from the evaluation of the Transition to Work Community of Practice, Brotherhood of St Laurence.

Co-production

Co-production between government and the community sector in the design of grant agreements can occur through relational contracting. This involves government working with CSOs to co-produce service designs, contracts and KPIs. Relational contracting can promote innovation through the exchange and testing of alternative design options. It can also strengthen accountability by building greater transparency, mutual understanding, and trust between government and CSOs. This can reduce the compliance burden of reporting against poorly specified KPIs and enable more rapid adjustments to changing local conditions. It also enables government to develop a deeper understanding of the realities of implementation and how a policy works in practice, which enables a tighter feedback loop for improving policy design, service implementation and evaluation.

Tasmania's Regional Jobs Hubs (RJH) initiative provides a good example of co-production. RJH is a statewide community employment model led by the Tasmanian Government in partnership with community. The RJH model is block funded through agreements developed by the Tasmanian Government in collaboration with each RJH. Agreements are shaped to local conditions rather than one-size-fits-all. Funding and accountability are based on outcomes, tied to annual activity plans informed by the local operating context, and are agreed to jointly by individual RJHs, their advisory boards and the state government. Activity plans can evolve based on what is learned from implementation, which is fed back to government. This model has enabled flexibility, innovation and the achievement of positive employment outcomes.

Recommendation 2: Adopt sourcing, tendering and contracting practices that enable collaboration rather than competition, and involve local communities and the community sector in the grants process through collaborative commissioning.

Funding enabling organisations

Traditionally, services involve government (typically as buyer), service providers (as suppliers), and local communities and participants. BSL's experience in design and delivery has identified and confirmed the value that can be added by supporting 'enabling organisations' to complement this stakeholder network.

An enabling organisation is an independent organisation that provides research, data, practice expertise and facilitative leadership to build the collaborative capacity of local communities to drive change and share learnings with stakeholders. Enabling organisations:

- facilitate collaboration between providers and within communities to enable cross-sectoral work on the ground, and connect sectors that may be siloed by policy and funding structures (e.g. training and transport, employment and housing)
- build the capacity and capability of local organisations through training and resources
- connect government with community to improve the two-way flow of information between the policy level and what is happening on the ground, and drive practice improvement, policy reform and systems change

- enable governments to act as system stewards to allow government to shift their role away from that of ‘contract manager’, towards bringing coherence across systems; work ‘horizontally’ across government agencies and ‘vertically’ across different levels of government.

While the benefits for government are implicit in each of the above objectives, the value proposition for CSOs is that they would play a leadership role with other stakeholders and community members in driving systemic policy and practice change.

There are two mechanisms BSL and our partners commonly use as an enabling organisation:

- **Communities of Practice (CoPs)** – to coordinate effort, share learning, and connect providers and communities into government and policy.
- **Community Investment Committees (CICs)** – with influential local stakeholders and lived experience participants to enable community leadership to shape initiatives relevant to the local context.

Communities of Practice

CoPs are a mechanism for purposeful collaboration, networking, and sharing learning across providers and with government. CoPs support service consistency, best practice and continuous improvement. They achieve this by facilitating an exchange of practice-based expertise and building a shared knowledge base, developing solutions to recurring problems and promoting innovation. BSL’s experience suggests insights from the local level can also shape policy and services at the population level. Government representatives can be members of CoPs, which has additional benefits including reducing the distance between policy and practice, and providing an efficient way for government to better understand the experiences, challenges and aspirations of communities to inform better policy design.

BSL and our partners have found that when government representatives participate in CoPs they can better understand progress and challenges, and act quickly to address emerging issues or improve the next iteration of the service’s design. The nature of this relationship is very different to a CSO simply delivering progress reports to government and engaging through formal channels.

Ideally, CoPs are convened by a lead partner or provider rather than government, which helps avoid power imbalances between funders and providers, and ensures that there is ‘skin in the game’ through the convenor having experience with delivery. CoPs should include representatives from government, providers and participants, and may include other relevant community organisations.

Community Investment Committees

CICs are local, collaborative, multi-sectoral mechanisms which bring together local actors to make strategic decisions about service delivery tailored to their community context. The aim of a CIC is to share diverse local knowledge and leverage community support and partnerships to co-develop opportunities that add value to work already taking place in the community. As an enabling organisation, BSL helps establish and coordinate CICs.

Transition to Work (TtW)

The Commonwealth Government's TtW service helps young people aged 15–24 into work or education at 13 sites around Australia. The objective of the TtW CoP was to develop collaboration between employment service providers to further service objectives (work and education). BSL was the convener of the CoP and brought together 11 member organisations to contribute and develop their complementary expertise. BSL's role was not to direct delivery, but to enable sharing of practice lessons and to build CoP members' capacity to work effectively with communities and local employers to create sustainable employment pathways for young people.

The role of BSL as an enabling organisation for the TtW CoP is highlighted in the following quote from the manager of a local service delivery agency:⁷

What the Brotherhood does as the lead agency gives us [the TtW services] so much depth that we wouldn't have as a little not-for-profit. It gives us authenticity ... it gives us a bit of kudos and credentials especially when you're talking to politicians. We can't guarantee we would have got the contract without the Community of Practice. And the resources and the research ... we didn't have the capacity to deliver those resources ... To actually have a best practice model hand delivered to us ... I know we paid a fee but still, that's just worth volumes for us. And the professional development for us as a team is amazing. As far as the forums and coming together as a whole, the value of being able to share information across other organisations, I don't think you can put value on that. [REDACTED], Manager

A 2020 evaluation of the TtW CoP found that services that followed the CoP model closely were more likely to meet or surpass government targets for education and employment outcomes than services with less fidelity to the CoP model. The evaluation also found that an enabling organisation raised quality and performance.⁸

National Youth Employment Body (NYEB)

BSL established the NYEB in 2018 as collaborative place-based model for advancing youth skills and employment in Australia. BSL role as an enabling organisation commenced with initial funding from the Commonwealth Government (in 2018), however it is now funded from philanthropic resources. In addition to direct service delivery, funding enabling organisations through grants would enable these functions to be resourced at a more appropriate level and in a more sustainable manner. In the NYEB, BSL supports CICs that are constituted of young people, training providers, employers, local councils, government representatives and representatives from other local community organisations.

CICs have demonstrated their value in identifying new services and service innovations. For example, in 2021 members of the [REDACTED] CIC (part of the NYEB) were able to identify a local challenge: skills shortages facing local agricultural employers. The CIC supported a partnership, facilitated by the enabling organisation, between local employers and training providers to co-design a two-year employment-based training pathway for young people to move into agricultural careers.

⁷ Ibid.

⁸ Ibid.

The [REDACTED] (NSW) CIC has been leveraging lessons from this to co-design a school-to-workplace-learning pathway into Aged Care in the region.

At a system-wide level, lessons from NYEB CoPs on young people moving into employment have informed several recommendations for employment services reform adopted by Treasury in its Employment White Paper,⁹ and in the directions for the Workforce Australia Review indicated by the Review's Chair.¹⁰

Importantly, government support of and participation in CoPs and CICs can generate efficiencies for government. It allows for multilateral and simultaneous engagement with relevant stakeholders rather than bilateral and sequential engagement. This allows for information sharing, clarification of challenges, identifying and testing options, and building agreement and buy-in for potential solutions and improvements. For example, in the [REDACTED] (NSW) NYEB CIC, young people stated that a major barrier to work was a lack of reliable transport. The CIC was able to escalate the issue directly to government, which was then able to add an extra 120 bus services and improve connections between the bus and train timetables. This significantly improved access to places of employment and training for young people.¹¹

Recommendation 3: Include in government grant guidelines the provision to fund enabling organisations in addition to direct service delivery roles, to facilitate collaboration, shared system learning and place-based governance. Enabling organisation functions can include communities of policy and practice and community investment committees.

Strengthening the voice of participants and those unable to access services

Strengthening the voice of service participants, and those unable to access current services, in the development, design and implementation of services and systems that can shape their lives can contribute to more effective service outcomes. It can also improve the skills, experience and wellbeing of participants and the broader community in which the service is located.

BSL experience suggests that ongoing participant engagement is effective when invested in at two levels:

- Funded mechanisms to support lived experience and co-design within service contracts, to enable participant voice to shape service design and implementation service and inform improvements.
- Service system-level mechanisms to ensure lived experience informs broader policy and system design decisions.

⁹ Commonwealth of Australia, 2023, *Working Future: The Australian Government's White Paper on Jobs and Opportunities*, Canberra.

¹⁰ Hill, 2023, *Speech to National Employment Services Association (NESA) Conference 2023*, Brisbane.

¹¹ Brotherhood of St Laurence, 2020, *National Youth Employment Body Practice Guide: A guide to strengthening youth employment pathways – Local to national*, Melbourne.

Recommendation 4: Ensure grant guidelines include provision for funding of mechanisms to support lived experience and community feedback to inform program service design, implementation and improvement.

Streamlined sharing of information and data

Currently, government shares some data on service performance, but it can be ad hoc. Communities and organisations are often dependent on accessing information about federal government services indirectly (for example, through Senate Estimates processes). More routine and proactive sharing of data on service outcomes – including through collated service data submitted by providers – would help communities and CSOs plan and design better services, conduct research and advocacy, and improve the quality of responses to government tenders.

The value of relevant data and information can be observed in the BSL ‘Youth Opportunity Compass’. This tool provides ‘data dashboards’ that bring together demographic, housing, education and labour market data specific to workforce regions and the 15–24-year-old cohort. The tool has emerged from the NYEB and was developed in partnership with local stakeholders as part of a wider initiative to reduce youth unemployment. The Compass is routinely used in NYEB sites to assist CICs to plan strategies and respond to local labour market conditions.

Recommendation 5: Government should routinely share data on service outcomes and information collated from multiple providers, to help communities and CSOs assess impact, inform policy and service improvement, research and advocacy, and identify where there is additional need. Rather than just being used for compliance purposes, this data could inform co-design, model iteration, practice innovation and accountability back to communities.

Providing support and capacity building for smaller CSOs

Smaller CSOs provide a valuable contribution to local communities.¹² BSL partners with smaller local providers to deliver many services, through subcontracting (e.g. the Home Interaction Service for Parents and Youngsters [HIPPY], Work and Learning Centres, Saver Plus etc.); partners and collaborates with local organisations in service delivery; and provides capacity building both informally and formally through convening CoPs, developing practice guides and delivering training. BSL has also built consortia with smaller providers to jointly bid for government contracts, such as through the TtW CoP.

BSL has observed that an over-reliance on competitive tendering, along with the complexity of complying with funding requirements, can disadvantage smaller organisations. The earlier recommendations in this submission advocating greater use of collaborative commissioning would also assist smaller CSOs to engage and contribute to service design and delivery.

A specific barrier BSL has faced in providing support to smaller CSOs is that capacity building is typically not adequately or transparently included and/or remunerated in funding agreements.

¹² Arashiro and Pagan, 2018, *Too valuable to lose: Assessing the value of small community service organisations*, Brotherhood of St. Laurence, Melbourne.

Rather, it is a function provided 'on top of' contractual specifications. Funding enabling organisations to explicitly perform this capacity-building role (as recommended earlier) would assist in addressing this barrier.

In relation to grant procedures, there are simple practical steps government can take to help small and emerging organisations to access funding opportunities. These include:

- allowing longer periods for Request for Tenders (RFTs) and information briefings, so that organisations without large and established back-office functions are not disadvantaged in the tender process
- providing information sessions on using relevant reporting systems and templates.

Recommendation 6: Ensure government funding processes are made easier for small organisations to access by extending the length of request for tender (RFT) periods, holding clear information sessions, and offering support on reporting systems and templates.

Supporting Aboriginal Community Controlled Organisations (ACCOs)

Realising the ambition of a greater role for ACCOs in service delivery in line with Closing the Gap requires investment in capacity building of the ACCOs. The specific needs of each organisation may vary and may include infrastructure, finance capability, governance and targeted workforce development. It is important that ACCOs lead the assessment of capacity-building needs, in partnership with government, using a strengths-based, coordinated and strategic approach. Any service design, commissioning of services and funding arrangements need to acknowledge the right of First Nations communities to self-determination and to lead the transition of services for those communities from non-Indigenous organisations to ACCOs.

Recommendation 7: Government should provide dedicated funding for capacity building of Aboriginal Community Controlled Organisations (ACCOs) based on an assessment of capacity-building needs led by First Nations Communities and ACCOs.

2 Grants that reflect real costs and include indexation

An important financial prerequisite for delivering quality services is recognising the cost of service delivery. This includes ensuring that grants provide adequate and flexible funding and reflect real costs. If grants do not reflect real costs, this can compromise outcomes for participants (reduced scope or quality in services and services) and government (under-achievement of grant objectives). The 2022 ACOSS Community Sector Survey included questions to leaders of community sector agencies regarding government funding of service delivery.¹³ The survey found:

¹³ Australian Council of Social Services, 2023, *At the precipice: Australia's community sector through the cost-of-living crisis*, ACOSS. Viewed 17 October 2023.

- only 9% of community sector leaders reported that funding was sufficient to cover the full costs of service delivery, and 11% of leaders agreed their organisation's mainstream of government funding adequately covers increases in wage costs
- only 6% of leaders reported that perceived indexation arrangements were adequate
- only 13% of leaders reported that their organisational overheads were adequately funded.

In addition, BSL considers that the context for CSOs and services has become increasingly challenging, resulting in increased cost pressures due to factors including:

- increased demand from communities, families and individuals for services and support – this has been influenced by the COVID-19 pandemic, decreasing housing affordability and increased rental and mortgage stress, and inflation and cost of living pressures
- increased compliance, administration and training requirements for CSOs
- increased wage and input costs for CSOs.

Against this background, the following sections focus on two areas where funding can more accurately reflect real costs: funding real costs over the full project life cycle and indexation.

Real costs over the full service and project cycle

It is BSL's experience that due to the changing costs of service delivery over time, grants often fail to fund the real costs associated with it. The resulting funding shortfall can have negative impacts on CSOs, service and participants. Social Ventures Australia and the Centre for Social Impact have documented these to include:

- reducing the ability of CSOs to provide quality services and generate impact
- incentivising under-investment by CSOs in important management, reporting and control systems
- the cross-subsidy of government-funded services from other funding sources.¹⁴

Grant agreements often focus on costs of 'direct' service delivery, excluding important functions that support service improvement including research, evaluation, workforce or sector development, benchmarking and sector collaboration. BSL places value on continuous improvement and learning, and accordingly has sought non-government funding to conduct evaluations of services that are funded (at least in part) by government. BSL has also funded research and practice improvements to government-funded services from non-government sources. This approach compromises the level and sustainability of funding available for service improvement and disadvantages smaller organisations that may lack the capacity to seek additional funding for these purposes. Government funding should cover these important service improvement functions related to government-funded services.

¹⁴ Social Ventures Australia and Centre for Social Impact, 2022, *Paying what it takes: funding indirect cost to create long-term impact*, Social Ventures Australia.

Recommendation 8: Extend grant funding to cover service improvement functions beyond direct service delivery, including research, evaluation, workforce or sector development, benchmarking and sector collaboration.

A particular challenge in funding real costs relates to administrative costs, sometimes described as indirect costs or overhead costs. These include infrastructure, management, governance and administration. Government grants to CSOs often include a fixed percentage for administrative costs, however this allocation is often insufficient to cover full and rising costs.

A specific cost pressure arises when government decides to discontinue a service. The cost associated with staff redundancies is typically not recognised in the funding arrangement, however it is a real cost that is directly attributable – from a project life cycle perspective – to the grant.

Redundancy costs may become more significant following recent changes to industrial relations legislation. CSOs engage staff on fixed-term and maximum-term contracts to align with fixed-term grant funded projects. However, the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022* limits the use of fixed-term contracts for the same role beyond two years (including renewals) or two consecutive contracts – whichever is shorter. The legislation allows for some exceptions, and some government grants may fall within the exception criteria. The full implications of this change are not yet clear, however if it restricts the use of fixed-term contracts on fixed-term grants that exceed two years' duration, it may result in increased risk around redundancy costs at grant completion. This change will commence from 6 December 2023, or an earlier date to be fixed by proclamation.¹⁵

Recommendation 9: Commit to funding full administrative costs associated with grants (including redundancy costs where service contracts cease).

In addition to providing funding for real costs over the full grant cycle, there may be scope to reduce administrative costs for both government and CSOs, including:

- designing more streamlined and simplified government reporting requirements for CSOs (including across multiple grants)
- more straightforward and rapid consideration and approval of contract variations – in recognition that variations are a sensible response to project shocks, changes in economic and social conditions, shifts in government policy direction and focus, and learning-by-doing and innovation over the life of a project
- the option of including variation thresholds in contracts. For example, contract variations would only be required if a contract parameter (such as budget or KPIs) varied by an amount greater than an agreed threshold (such as 5 per cent). Variations below this threshold would not require variations and approvals. This is the strategy adopted by international governments, such as the

¹⁵ Department of Employment and Workplace Relations, 2023, [Secure Jobs, Better Pay](#), Department of Employment and Workplace Relations, Australian Government. Viewed 23 October 2023.

USA, which recognises that by the conclusion of the contract either budget or KPI parameters may even out. Hence, recognising the time and resources involved for both parties, it does not undertake variations for parameters under 5 per cent mid-contract.

Recommendation 10: Identify areas where administrative burden and costs of grant implementation and compliance can be reduced, including reporting and contract variations.

Indexation

Indexation is an important tool to ensure that government grants continue to fund the real costs of delivering quality services over time. BSL welcomes revised indexation adjustments announced in recent Budgets, however indexation arrangements continue to face limitations including adequacy, transparency, timing and the application of a productivity offset.

Adequacy and Transparency

The methodology and calculation of indexation is not transparent. As a result, it is difficult to determine whether indexation adequately funds real costs over time. BSL understands indexation seeks to consider movements in prices and wages, however the details and methodology are not generally disclosed. This complicates planning for future services and service delivery and increases risk for CSOs. The mitigation of this indexation risk by CSOs (for example through slowing service delivery, scaling back recruitment, delaying expansion or reducing innovation) can have a negative impact on participants and service quality. A lack of transparency in indexation can also pose challenges for larger CSOs that subcontract to smaller CSOs for localised service delivery (in a prime-provider model), as it is unclear how much, or when, additional funding can be passed on.

BSL welcomed recent Victorian Government changes to indexation for CSOs announced in September 2023.¹⁶ Indexation will be calculated through an agreed and transparent formula, based on Fair Work Australia obligations (80%) and the Consumer Price Index (20%), and will be used for all future indexation adjustments.¹⁷ This approach more accurately reflects the real costs of service delivery, provides transparency, and supports medium-term planning of services and services. Indexation arrangements for Australian Government grants should be redesigned to include elements of the Victorian Government model including an explicit formula, inclusion of both wage and non-wage costs, and transparency.

Recommendation 11: Introduce an explicit and transparent formula for indexation to ensure grants continue to fund the real cost of services, drawing on the Victorian Government model.

Timing

The timing of indexation adjustments from government can limit their effectiveness. For example, recently the federal Department of Social Services (DSS) provided indexation supplementation

¹⁶ Victorian Government, 2023, *Promoting Fair Jobs For Vital Community Sector Workers*, Premier of Victoria. Viewed 18 October 2023.

¹⁷ The Centre for Excellence in Child and Family Welfare, 2023, *Indexing funding recognises the rising costs of delivering services*, Centre for Excellence in Child and Family Welfare. Viewed 18 October 2023.

funding to BSL for the Home Interaction Service for Parents and Youngsters (HIPPY) for the full financial year 2022–23. However, the supplementation was furnished in late February 2023, with a requirement that it be spent by the end of that financial year (i.e. a window of 4 months to spend 12 months of indexation). This provides an inadequate opportunity for accurate budgeting and considered spending.

Recommendation 12: Indexation increases should be forward-looking to enable accurate budgeting and considered spending. In practical terms, indexation should be provided in the first quarter of a new financial year to allow organisations to plan service delivery for the full financial year.

Productivity offset

The Issues Paper notes that indexation is reduced by the application of a productivity offset, based on the long-run rate of productivity growth that underlies Budget medium-term forecasts. This offset is intended to incentivise agencies and services to improve their efficiency over time¹⁸. This highlights three key challenges:

1. The amount of the productivity offset is not transparent. In the recent 2023 Intergenerational Report, the Australian Government reduced its long-term productivity growth assumption for the Australia economy to 1.2% (down from 1.5%) in recognition that productivity growth in Australia has slowed across the economy.¹⁹ However, due to a lack of transparency, it is not clear if the productivity offset is currently set at 1.2% or the older figure of 1.5% (or some other figure). It is also not clear if the productivity offset is consistent across grants or whether different grants include different productivity offsets.
2. The current indexation approach assumes productivity gains in service and service delivery can be readily achieved each year. However, the Productivity Commission recently completed a comprehensive review of productivity and found that productivity gains in the services sector are more challenging to find (relative to the goods sector), as many services are delivered face-to-face and/or are customised. There are fewer opportunities for productivity gains through (for example) automation, and economies of scale are more difficult to achieve.²⁰
3. The current indexation approach (implicitly) assumes all productivity gains are realised in the form of cost reductions and can then be passed on to government through a productivity offset. However, the Productivity Commission found that productivity gains in the services

¹⁸ Australian Government, 2023a, *A stronger, more diverse and independent community sector*, Issues Paper, Canberra.

¹⁹ Australian Government 2023b, *Intergenerational Report 2023: Australia's Future to 2063*, Canberra.

²⁰ Productivity Commission 2023a, *5-year Productivity Inquiry: Advancing Prosperity*, Vol. 1, Inquiry Report no. 100, Canberra.

sector are often realised in the form of quality improvements rather than cost reductions.²¹ In these circumstances, a productivity offset that forces a cost reduction is not appropriate.

Recommendation 13: The productivity offset be reduced or removed from the indexation formula in recognition that productivity gains in service delivery are more difficult to achieve than for other sectors of the economy and are typically realised in the form of quality improvements rather than cost reductions. Alternatively, if a productivity offset is retained, it should be made transparent in the indexation formula advocated above.

Longer grant agreement terms

Lastly, the duration of grant agreements has a direct impact on quality service delivery. The current grant durations (often up to two years) do not support delivery of grant objectives or achievement of outcomes for participants.

In BSL's experience, the negative effects of short-term agreements include:

- precarious funding inhibits collaboration and innovation by reducing scope for providers to invest time and resources into building networks and learning new ways of working
- service providers can spend too much time seeking short-term funding, which is a costly distraction from delivering and improving services
- short-term contracts impede the development of stable relationships between providers and service users, hindering service provision and the achievement of outcomes.

The Productivity Commission examined grant duration and found that current contracting terms are too short, and recommended adoption of a seven-year default contracting term.²² Longer agreements would address many of these negative effects. In addition, longer durations offer benefits including:

- allowing time for more considered set-up and enabling investment to support quality services through workforce development and building relationships in communities
- allowing governments and CSOs to move towards more 'relational' approaches to contract management, including more co-design of services.

Some additional considerations will be important to realise the benefits associated with longer grant agreements. These considerations include:

- Longer grant agreements increase indexation risk for CSOs (discussed earlier). If indexation risk is not addressed, it will undermine the benefits of longer grant agreements and require CSOs to focus resources on addressing indexation and funding shortfalls rather than quality service delivery.

²¹ Ibid.

²² Productivity Commission 2017, *Introducing Competition and Informed User Choice into Human Services: Reforms to Human Services*, Report No. 85, Canberra.

- The completion of longer-term grants and projects will require considered planning to enable sustainable transition arrangements (to another CSO, to an alternative service approach, or to end the service). Planning will need to include arrangements for staffing, networks, data, intellectual property and infrastructure. This can be supported by ensuring a minimum advance notice period (for example, six months) from government of a grant renewal/non-renewal decision).

There is no objectively 'correct' contract duration for grant agreements, however the current durations are too short, and the seven-year recommendation from the Productivity Commission would be a welcome improvement, with provision for shorter terms in specific circumstances including service pilots and trials.

Recommendation 14: Introduce a default seven-year contract term as recommended by the Productivity Commission in their 2017 *Inquiry into Human Services*, with a minimum six-month advance notice of decision on contract renewal.

Recommendation 15: Enable shorter term grants in specific circumstances, including one-off time-limited projects, and pilots and trials to inform longer-term initiatives.