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## J Not-for-profit sector feedback: government funded services

During the course of this study, the Commission has been struck by the extent of the not-for-profit (NFP) sector's dissatisfaction with its engagement with government in the delivery of human services. This dissatisfaction has been palpable during meetings with the sector and was also strongly reflected in submissions. This appendix provides an overview of the sector's concerns relating to policy formulation and program design, and the use of purchase of service contracting. The concerns participants raised in relation to funding are considered in chapter 11.

### J.1 Governments are not making the most of not-for-profit knowledge and expertise

The trend for governments to increasingly fund not-for-profit organisations (NFPs) to deliver human services on their behalf has meant that in many areas government departments and agencies are largely removed from day-to-day engagement with the clients of these services. The NFP sector argues community organisations often have unique knowledge of what is happening 'on the ground', particularly regarding client needs, and governments could be making better use of this knowledge and expertise when formulating policy and designing programs (for example, the Illawarra Forum Inc., sub. 52; The Benevolent Society, sub. 100; Catholic Social Services Australia, sub. 117; South Australian Council of Social Service, sub. 135; Community Child Care Co-operative Ltd (NSW), sub. 142; and UnitingCare Children, Young People and Families, sub. 148).

In this regard, ACOSS noted:

Consultations with members has found that there is a strong sense that governments in many jurisdictions do not recognise the value of the expertise the sector has, and the contribution it can make to policy and program design. When external advice is sought, governments may think first of hiring a private sector consulting firm rather than looking to the expertise and knowledge developed over many decades in the community services and welfare sector. (sub. 118, p. 25)

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Similarly, the Western Australian Network of Alcohol and other Drug Agencies (WANADA) argued:

Stronger acknowledgement of the value of local and community knowledge in the design and delivery of services would limit the detrimental impact of one-size-fits-all approaches to the provision of government funded services within the NFP AOD [Alcohol and Other Drug] sector in WA. Specifically in the rural and remote locations, NFP services are in the best position to design, deliver and adapt services according to client and community needs. It is essential that government recognise the importance of local knowledge and the appropriateness of service delivery in a local context. (sub. 137, p. 2)

Sector Connect Inc. provided the Commission with a copy of the results from a recent survey of community welfare organisations in New South Wales. While the survey found that most respondents were able to find ways to address local needs within the parameters of more broadly designed programs:

The major issue arising with respect to local knowledge and needs was a perceived limitation on organisations' ability to plan for changing local needs. The collaborative qualitative reflection on this survey finding revealed that many felt that they were always *responding* to what government agencies came out with at a particular time, and tailoring their description of local needs to fit with that. They had *little or no real input into shaping future funding programs* to reflect what they were experiencing and learning locally. (sub. 147, p. 20) [emphasis is original]

Overall, there was a strong sense from submissions that governments are failing to adequately consult with the sector. In some cases this may be exacerbated by 'silos' within government departments and agencies that impede effective engagement and information flow. For example, Southern Youth and Family Services observed:

The separation of policy development from administration means that feedback from on-the-ground experience is missing from policy formulation. This is born out by the experience of community organisations being asked 'where's the evidence' by policy makers whose own agencies have collected it. (sub. 110, p. 2)

Conceptually, there are several ways in which poor consultation with NFPs may impede the efficient and effective delivery of government funded human services. For example, poor consultation may reduce the government's ability to develop the evidence base needed to effectively identify problems and assess the relative merits of alternative policy proposals, leading to a less than socially optimal allocation of resources.

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## **J.2 Purchase of service contracting has some inherent weaknesses**

There is a strong view in the NFP sector that the efficiency and effectiveness of service delivery has been undermined by the shift from submission-based grants to purchase-of-service contracting. At least in part, this seems to reflect an underlying concern that there is an irreconcilable tension between a market-based approach to funding the delivery of human services and the motivation and behaviour of NFPs. This is a view that often finds currency in media commentary about the effects of competition policy on the sector. For example, in a recent newspaper article in the Sydney Morning Herald, Yeates (2009) argued ‘All up, it seems pretty clear that having non-profit groups engaging in cutthroat competition has produced some poor — not to mention perverse — results’.

In its submission, the Public Interest Advocacy Centre, the Social Justice and Social Change Research Centre and Whitlam Institute asserted:

There is an evident tension between the terms ‘new public management’ imposes on NFPs [not-for-profit organisations] working within the realm of government-sponsored service provision and their traditional adherence to an organisational mission and culture premised upon social justice. (sub. 159, p. 11)

Consistent with this line of argument, participants identified a number of purported weaknesses in purchase of service contracting. Some argued that the purchase of service contracting in combination with the reliance of NFPs on government funding, creates incentives for community-based organisations to take on the practices and behaviours of the government departments and agencies they deal with (or so called ‘isomorphism’) (Jenny Onyx and Jenny Green, sub. 13; and Anglicare Australia, sub. 140). Thus, it was suggested that government contracts encourage NFPs to develop more centralised and bureaucratic structures, which risk undermining the reach of these organisations into the community and community participation in decision making processes. For example, The NSW Meals on Wheels Association Inc. argued:

Small, not-for-profits run the risk, when complying with the ever increasing burden of regulatory and reporting requirements of government, of simply turning themselves into pale imitations of the bureaucracies that make these demands upon them. That would simply destroy the very advantage they bring to the table! (sub. 7, p. 10)

Similarly, Community Child Care Co-operative Ltd (NSW) stated:

It seems as if in order to meet the approval of the bureaucracy and therefore win funding contracts, not-for-profit organisations have to become more bureaucratic themselves. Although this is of course possible, some of the uniqueness of the not-for-

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profit model becomes lost in the process, not the least the responsiveness of organisations to the communities they serve. (sub. 142, p. 7)

Closely related to such concerns, were claims that purchase of service contracting:

- distracts NFPs from their purpose, contributing to ‘mission drift’ (for example, Christine Stirling, sub. 91; Anglicare Australia, sub. 140; The Smith Family, sub. DR204)
- creates a perception in the community that NFPs are simply a delivery arm of government (for example, National Disability Services, sub. 85; Southern Youth and Family Services, sub. 110; South Australian Council of Social Service, sub. 135)
- erodes the independence of NFPs in ways that make it difficult for them to remain responsive and flexible to community needs (for example, the Illawarra Forum Inc., sub. 52).

There were also suggestions that purchase of service contracting is inherently biased in favour of large organisations and is thereby contributing to a loss of diversity in the sector. The Alcohol and other Drugs Council of Australia contended:

Competitive tendering processes are inherently disadvantageous to smaller and local NGOs and favour larger nationalised bodies who may have a poor understanding of local factors and relationships critical to achieving real outcomes. (sub. 149, p. 1)

And, Catholic Social Services Australia observed:

Over time there is a tendency for contracts and funding agreements to become more detailed and prescriptive. Reporting requirements grow to match. These government efforts at control and measurement tend to favour larger bureaucratically sophisticated organisations at the expense of smaller locally based organisations.

If this trend continues there is a risk of a shrinking ‘gene pool’ of ideas and service techniques in Australian social services. The cost of tighter government control and more detailed, more uniform reporting mechanisms will be a reduction in local autonomy and a decreased ability to harness local knowledge. (sub. 117, p. 19)

Many participants were also concerned that the focus on encouraging competition between providers has been at the expense of socially beneficial collaboration (PeakCare Queensland Inc., sub. 81; Southern Youth and Family Services, sub. 110; Alcohol and other Drugs Council of Australia, sub. 149). Reflecting this view, the Brotherhood of St Laurence argued:

Co-operation between voluntary organisations has increasingly given way to competition for service contracts. This has hindered the effectiveness of the sector by reducing collaboration and sharing of best practice. (sub. 172, p. 6)

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Similarly, West Street Centre noted:

Competitive tendering has undermined the cohesion of the sector. A decade or so of competitive tendering has fostered a climate of competition, where each organisation works for themselves, rather than collaboration and support for community initiatives and activities. (sub. 43, p. 2)

It is also clear that some participants see purchase of service contracting as being largely driven by measuring outputs rather than the quality of the services being delivered. For example, PeakCare Queensland Inc. contended:

Focus is largely on quantitative analysis rather than practice standards and qualitative considerations. Therefore, the volume of clients in any given service takes precedence over the quality of service delivery to clients in terms of analysis. This is of significant concern and is a long standing issue that is arguably, according to our membership, becoming more of a concern. (sub. 81, p. 6)

Drawing together many of these themes, the Illawarra Forum Inc. neatly captured what appears to be a common view in the sector:

The contracting of services and competitive tendering model has encouraged atomised and individualised services, and puts at risk the capacity of locally-based community organisations to encourage a sense of belonging and control for community members participating in and accessing their organisations. It reduces their autonomy and independence. A better model of supporting the work of these organisations, based on identification of local need, negotiation of funding levels and performance targets and measures is required. (sub. 52, p. 57)

To the extent that purchase of service contracting gives rise to problems of this nature, it suggests that current arrangements may be eroding the comparative advantage of NFPs in delivering human services. However, as discussed in chapter 12, in assessing how best to deal with such issues it is important to distinguish between problems intrinsic to purchase of service contracting and those arising from how it has been applied.

### **J.3 Purchase of service contracting is being poorly applied**

Some of the barriers to efficient and effective service delivery identified by participants appear to be an outgrowth of how governments have applied purchase of service contracting. This includes concerns about the short-term nature of government contracts; the inappropriate transfer of risk; excessive compliance and reporting costs; the degree to which contracts are being used to micro manage

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NFPs; and the sheer volume of contracts that community-based organisations have to manage.

### **The short-term nature of government service agreements and contracts**

A common concern of participants is what they perceive as the excessively short-term nature of government contracts. Submissions suggest that the duration of government service agreements and contracts is typically less than three years. At an overarching level, a number of participants considered that short-term contracts are inconsistent with the goal of developing effective long-term solutions to complex problems. For example, Mission Australia argued:

Programs in disadvantaged communities requiring long term place based interventions require a consistent funding stream. On again/off again funding, one, and even three year funding agreements, are not always conducive to such long term approaches and sudden funding withdrawal can be disruptive or terminate vital programs without outcomes being achieved. (sub. 56, p. 5)

This point was also emphasised by WA Baptist Hospitals and Homes Trust (Baptistcare) in the context of multicultural and Indigenous services:

... short term contracts expend money and emotion, with minimal outcomes and significant disillusionment and alienation by the targeted community. No serious community work can be done in short time frames. It shows a distinct lack of understanding about the cultural and physical issues that have to be understood and negotiated. (sub. 90, p. 9)

Many participants argued that short-term contracts create uncertainty for providers and are a barrier to long-term planning and workforce development. Reflecting this view, the Alcohol and other Drugs Council of Australia stated:

Many not-for-profit organisations are currently faced with short-term funding arrangements that present serious impediments to not-for-profit organisations as they generate uncertainty, inhibit innovation, make it difficult to retain staff, render longer-term financial planning and proper investment extremely difficult, and stop organisations from pursuing more holistic strategic and organisational goals. (sub. 123, p. 3)

It appears that in some cases uncertainty is being exacerbated by drawn-out government decision-making processes. Queensland Aged and Disability Advocacy Inc. observed:

The time span from applying for funding till actually receiving the funding can often be lengthy. This uncertainty makes future planning difficult especially when funding rounds overlap and the outcome of the first funding application is not known. (sub. 103, p. 2)

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And, the Foundation for Rural and Regional Renewal contended:

At a local level projects are often delayed in the time taken to make planning decisions. Organisations dependent on funding from other sources can sometimes lose the funding due to delays caused by government decision making. Timely decision making by governments is critical to good management and planning for not-for-profits. (sub. 126, p. 2)

Participants noted that the reliance of some NFPs on multiple short-term contracts creates a considerable administrative burden for these organisations. In this regard, the Australian Catholic Bishops Conference provided the following example:

... one community agency in regional NSW, with only 30 staff, has to enter more than 25 different short term funding agreements (with differing reporting and control requirements) with state and federal government departments in order to fund its work for a year. Such situations are common for NFPs. Such complication of government funding is the major impediment to the efficient and effective operation of NFPs. (sub. 114, p. 10)

Some participants were also concerned about the community's ongoing access to essential services when short-term contracts end. For example, Australian General Practice Network contended:

Short-term, one-off project funding can mean that essential services that have been made available to the community are withdrawn when project funding ceases even though community expectations have been raised. Ideally, projects need to have both evaluation and sustainability components built into contracts as a standard, funded clause. This is not currently the case. (sub. 151, p. 5)

In consultations with state governments, a number of jurisdictions indicated that their ability to contract with NFPs for longer periods is constrained by the short-term nature of Commonwealth funding. It was suggested that in some service areas the Commonwealth only undertakes to provide the states and territories with funding on an annual basis, which creates a degree of uncertainty for the states and territories in entering into longer-term funding commitments with the sector.

### **Poor risk management has led to inappropriate cost shifting**

There is a strong perception among NFPs that poor risk management by government is leading to inappropriate cost shifting. One manifestation of this is government departments and agencies seeking to eliminate risk by imposing ever more complex contractual and reporting requirements (The NSW Meals on Wheels Association Inc., sub. 7). Some participants argued this results in NFPs being burdened by increasing layers of 'red tape', imposing a considerable compliance burden and inhibiting flexibility and innovation. For example, Leonie Leong noted:

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My experience has shown that this underlying fear of risk creates a vicious cycle of increasing ‘red tape’ and bureaucracy which is ‘mirrored’ into the Third sector where many NFPs find themselves drowning in paperwork (i.e. ‘death by a thousand paper cuts’) or being ‘strangled’ by bureaucracy in order to meet ‘compliance’ to legislation. (sub. 89, p. 2)

Poor risk management can also manifest as the inappropriate transfer of risk from one party to another. In this regard, Catholic Social Services Australia observed:

Like all activities, social service delivery involves risks. Governments should attempt to allocate these risks in a way that maximises performance, efficiency and accountability. Part of the problem with some of the current arrangements is that risks are misallocated. Non-government agencies bear some risks that ought to be borne by government and government attempts to take responsibility for other risks that should be borne by non-government providers. (sub. 117, p. 17)

Some argued that NFPs are not always adequately compensated for the additional risk that they are expected to bear. For example, the Health and Community Services Workforce Council Inc. argued:

Currently government can shift the risk to NFPs without adequately compensating the NFPs to absorb the risk, leading to significant risk avoidance policies at the organisational level. This often inhibits service model innovation and services to the most vulnerable clients. (sub. 95, p. 4)

Other participants were concerned that inappropriate risk transfer can undermine an NFP’s standing with clients and the broader community. In this regard, WA Baptist Hospitals and Homes Trust Inc. (Baptistcare) considered:

The request by both government/s and non-profits for partnerships is, however, undermined by the purchasing/contracting relationship, which can undermine the belief and trust of clients in the non-profit’s motives particularly when the marketplace is populated by for-profits also. The transfer of risk to the non-profit is often seen as unhelpful and at worse, deliberately shifting the risks to organisations that would then have to use their own good will and reputation to manage when this should never be included in the contract. (sub. 90, p. 12)

## **Compliance and reporting requirements impose significant costs**

Arguably, the strongest message from the NFP sector in relation to government funded services is that the costs associated with tendering, contractual and reporting requirements have become excessive. Consequently, many community organisations are concerned that managing the administrative burden of having to tender and re-tender and comply with contractual and reporting obligations, has become ‘core business’ to the detriment of their ability to deliver services to the community. Reflecting this view Catholic Social Services Australia (sub. 117, p. 13) argued ‘Current accountability and red tape issues are so process focussed

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and so burdensome as to render some services compromised in achieving efficiency and effectiveness’.

*The trend has been for a growing compliance burden*

Consultations with the NFP sector and submissions suggest that over time complying with tendering processes, service standards, accreditation systems and reporting requirements has become more complex and onerous. For example, in relation to the costs associated with the tendering process, Southern Youth and Family Services noted:

Requests for Tenders (RFT), Expressions of Interest (EOI), Approach to Market (ATM) and other processes adopted by governments have become increasingly complex, legalistic and resource intensive. Prescribed application forms are not always user friendly and may require significant technological skills to navigate and lodge. Repetitive questioning is common as are requests for details of service delivery ... (sub. 110, p. 4)

Similarly, in relation to accountability and reporting requirements, the Alcohol and other Drugs Council of Australia observed:

The not-for-profit sector has not only witnessed a movement towards more competitive funding arrangements but also a development of governments increasingly demanding greater accountability for the use of funds and for service delivery. Over time, not only the demand for health and social services and thus the workload of many not-for-profit organisations increased, but also the red tape associated with receiving government funds. In many cases, administrative requirements becoming more frequent and complex has not been accompanied by funding increases which would enable employing additional staff to tackle the increased administrative burden without having to move frontline workers off-shore. (sub. 123, p. 21)

In some cases, the frequency of the turnover of government programs (including the creation of new programs) appears to be adding to the compliance burden. For example, Community Child Care Co-operative Ltd (NSW) suggested:

On average, it appears as if every five to six years; a new program will be developed to which we have to apply for funding to enable us to continue to offer our services. With change occurring at this rate, efficiency and effectiveness is undermined by the need to recreate systems and processes to meet the next set of funding guidelines. (sub. 142, p. 6)

One piece of supporting evidence for this trend is NFPs increasingly having to employ professional staff to deal with the administrative burden of government tendering, contractual and reporting requirements. The Australian Red Cross stated:

Not-for-profit organisations, such as Red Cross, are increasingly having to establish specialist legal and compliance units to navigate the diverse obligations they must

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comply with including understanding and negotiating the complexity of government grants and funding arrangements. This is in addition to the contractual arrangements created through partnerships with the private sector. (sub. 165, p. 7)

*The compliance burden is disproportionate to funding received and risks involved*

Among many NFPs there is a sense of frustration that the burden of contractual and reporting requirements is often disproportionate to the government funding they receive and the risks involved (for example, The NSW Meals on Wheels Association Inc, sub. 7; Southern Youth and Family Services, sub. 110; and Kindergarten Parents Victoria, sub. 139). In its submission, Anglicare Australia argued:

While it is clear that publicly funded entities should be accountable for the financing they receive, the compliance costs to service providers can frequently be disproportionate to the level of funding involved. The core of the problem appears to be that government has applied a ‘one size fits all’ reporting and compliance model to contracts and grants. (sub. 140, p. 13)

*Often reporting requirements appear to serve no worthwhile purpose*

There is also a perception that contractual and reporting requirements do not appear to lead to improved outcomes for clients. Indeed, many NFPs considered that the information and data they are asked to provide seemingly disappears into the ‘ether’ with little or no tangible effect. There was a strong view governments should only collect data they actually intend to analyse and provide the information they collect back to the sector in a form that helps providers improve service delivery outcomes. For example, The NSW Meals on Wheels Association Inc. contended:

Often very substantial, and very scarce, resources are devoted within small community based organizations to fulfilling the information requirements of the bureaucracy, only for the information to regularly disappear into a black hole, from which it never emerges in any form at all, let alone in a form that might be useful to the sector. This suggests that such heavy administrative burdens are meeting bureaucratic needs, but certainly not service recipient needs. (sub. 7, p. 7)

*Small organisations are particularly disadvantaged*

The burden of contractual and reporting requirements can fall disproportionately on smaller community organisations. Several participants noted that these organisations often lack the staff and information technology systems necessary to meet such requirements. In this regard, the Health and Community Services Workforce Council Inc. argued:

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Reporting requirements can be overwhelming especially for smaller organisations ... the recording and retrieval of statistical and financial data involving items such as ‘units of service delivery’ can require either sophisticated computer software packages or many hours of manual record keeping. Both of these present financial and human resource issues particularly for smaller organisations. (sub. 95, p. 5)

Some participants argued that governments need to calibrate compliance and reporting requirements to take account of the capacities of different types of organisations and should particularly work to streamline and simplify these requirements for smaller community-based organisations. For example, the Illawarra Forum stated:

Small locally-based community organisations, which constitute a significant proportion of the not-for-profit sector, require different accountability mechanisms (administrative and grant processes) than large organisations whose greater economies of scale, better position them to survive the current environment. Reducing red tape for small, local organisations is imperative. (sub. 52, p. 56)

*Lack of consistency and unnecessary duplication adds to the compliance burden*

It is common practice for NFPs to have service agreements and contracts with multiple government departments and agencies, including across different levels of government. However, the Commission was told that NFPs must comply with multiple sets of rules and reporting requirements because within and across Australian governments there is no consistent approach, even in relation to the same services. Consequently, the burden of red tape increases significantly as the number of service agreements and contracts an organisation has increases. The Victorian Council of Social Service (VCOSS) reported:

VCOSS members have to manage multiple reporting and monitoring frameworks for government funding, with some having up to twenty-one separate requirements to the one department. (sub. 164, p. 47)

Similarly, Indigenous Community Volunteers observed:

A major concern for many NFPs is the inconsistent and heavy burden of reporting on their funding from government sources. Some organisations receive multiple funding from several government departments - and indeed several governments - to do a single task. Each department and government requires its own reporting, addressing its own set of criteria. Reducing administrative burden is thus both cost-saving to the government and to service recipients. By reducing unnecessary red tape imposed on the NFP sector, governments can make each dollar go further and hence improve the efficacy of service delivery investments they make through the NFP. (sub. 74, p. 7)

Some participants suggested there may be scope to reduce the compliance burden of NFPs by relying on existing external regulatory frameworks, rather than including

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additional reporting mechanisms in service agreements and contracts. Obviously, the appropriateness and feasibility of this approach would need to be considered on a case-by-case basis. That said, the Royal Flying Doctor Service of Australia noted:

In addition, there are many reporting and accountability mechanisms contained in government funded service contracts which are in addition to, or overlap with, external regulatory requirements. (sub. 84, p. 17)

*There are significant 'second-round' costs*

It is important to recognise that the costs of heavy-handed tendering, contractual and reporting requirements can extend beyond the immediate compliance burden. Some participants argued that excessive red tape is preventing NFPs from delivering the best possible outcomes to the community because of the diversion of staff and other resources to managing the resulting administrative burden. For example, Alcohol and other Drugs Council of Australia stated:

It has to be acknowledged that fulfilling the complex administrative requirements currently put to not-for-profit organisations take up valuable staff time which otherwise could be spent on delivering the services that the not-for-profit organisations have actually been funded for. ADCA questions how overburdening small to medium sized not-for-profit organisations with red tape leads to improved accountability and efficiency of service provision. (sub. 123, p. 21)

Government tendering, contractual and reporting requirements also appear to be contributing to the increasing professionalisation of NFPs. However, in some cases this may increase the differentiation and separation of stakeholder roles within these organisations, weakening their connections with the communities they serve. The Australian Institute of Aboriginal and Torres Strait Islander Studies observed:

A secondary effect is that many organisations rely on staff with professional skills in grant writing to broker large grants to ensure financial sustainability for organisations. Other staff who may offer skills in grass roots communication can feel marginalised by the managerial language and corporate practices of the sector unless they have adequate support and training. Sometimes the organisation as a whole can become alienated from its client/member base because increased numbers of professional employees do not adequately recognise the existing community-oriented skills of Indigenous staff, the membership and the board. (sub. 64, p. 13)

A further 'second-round' effect is that having to comply with multiple contractual and reporting requirements can make it difficult for organisations to standardise their own internal processes. Potentially this can limit an organisation's ability to manage costs, improve productivity and ensure consistent levels of service quality. For example, Berry Street considered:

Reporting to different standards in different programs prevents the organisation developing consistency in tools, processes, cycles and induction to these. (sub. 51, p. 6)

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## **Contracting has become synonymous with micro management**

It is undoubtedly the case that for many NFPs purchase of service contracting has become synonymous with government micro management. There are concerns that governments are inappropriately using service agreements and contracts to micro manage the delivery of the contracted service and probe into the management, operating methods and broader community activities of individual organisations (Public Interest Advocacy Centre, the Social Justice and Social Change Research Centre and Whitlam Institute, sub. 159). Some in the sector see micro management as symptomatic of a relationship with government that has become unnecessarily adversarial and lacking in trust.

Reflecting these concerns, PeakCare Queensland Inc. provided the following perspective:

There has been increasing concern in the wider community services sector in Queensland about service agreement micromanagement by government departments. The two areas most notable for this are funding allocation and monitoring. Where historically budgets were one-line statements that enabled services to manage internally their service deliverables, there has been a trend by government departments to prescribe how the service allocates its funding through rigorous reporting mechanisms and scrutiny.

This trend is further compounded by duplication of reporting requirements when there are multiple funding bodies and as expressed by one community sector member, ‘government departments are often partial funders yet dictate to the whole of the agency and expect [disclosure of] sensitive agency information which is not necessarily appropriate for them to have’. (sub. 81, pp. 3–4)

Indeed, Jobs Australia suggested that in some cases ‘micro management’ has become ‘nano-management’:

In some areas of government funded service delivery, and the Australian Job Network is a prime example, emphasis on outcomes and non-profit (and for-profit) flexibility about processes has iteratively shifted over the past 11 years since its establishment to extraordinary degrees of prescription and control over processes (which have come to be referred to as ‘nano-management’) by the purchasing department. Associated with this shift is a significantly increased and costly contractual reporting and regulatory burden and an associated significant diversion of attention and resources away from service provision and towards contract administration and compliance. (sub. 104, p. 3)

Many participants were clearly worried that micro management reduces their ability to draw on local knowledge and expertise and flexibly respond to changing conditions and client needs. In this regard, Anglicare Australia provided the following example:

An example is the Youthlinx program run by Anglicare agency the Samaritans in Newcastle. At one point, the agency was short staffed, so underspent on wages for a

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short time. In the same period it was running a very successful aerosol arts program, spending \$300 more than had initially been budgeted. This was noticed by the Department of Families, Housing, Community Services and Indigenous Affairs in the mid-year report. The department reminded the agency of the funding requirement that permission had to be requested in advance for such a change. The agency was required to spend exactly what had been budgeted for in each line item, even though the ‘bottom line’ was still balanced. The result was the agency had to cut back on programs for young people and return unspent wages to the department. (sub. 140, p. 14)

Some participants were also concerned that governments are using accountability and reporting requirements to exert control over NFPs, thereby weakening their mission and sense of identity. National Disability Services argued:

In some respects accountability has become an instrument of departmental control which weakens organisational mission and identity. Departments need to recognise that not-for-profit organisations have other stakeholders (clients, families, local communities) to whom they also must be accountable. (sub. 85, p. 4)

Illustrating this point, the Australian General Practice Network provided the following example:

A further restriction that has sometimes occurred in contracts is specification of how people employed under the contract should conduct themselves or their business. For example, one government contract implemented through the Network stipulated that staff employed under it should act as if employed by the Australian Public Service (APS). This was untenable for the employees — and for the Divisions — who as independently governed private businesses, have their own code of conduct. This level of specification is unnecessary. It can make partnership arrangements extremely difficult and can put pressure on collaborative relationships — a key mechanism by which NFP organisations operate. (sub. 151, p. 13)

A number of participants argued that governments should not use service agreements and contracts to exert influence over a community organisation’s broader advocacy role. This role is seen as making an important contribution to the democratic process by providing a voice to those who are marginalised and disadvantaged and in attracting volunteers and wider community support. Southern Youth and Family Services observed:

The not-for-profit community welfare industry has always tried to influence government policy development through advocacy. During the last decade government support for activities such as advocacy and community development has declined. Community organisations, threatened by the loss of contracts in future rounds of tendering have reduced their advocacy roles. In some cases contracts specifically prohibited organisations from speaking out. (sub. 110, p. 9)

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However, the extent to which this is a widespread problem is far from clear. The ACOSS (2009) survey found that 82 per cent of respondents considered that they were able to speak publicly about issues affecting their clients.

The Commission's consultations with the sector and the submissions it received suggest that the problem of micro management is at least partly another manifestation of poor risk management.

### **The lead agency model does not always lead to efficient and effective outcomes**

One of the ways governments have sought to improve the delivery of government funded services is by adopting the 'lead agency' or 'lead provider' funding model. Essentially, this involves governments contracting with a single larger NFP, which then sub-contracts service delivery to a number of smaller organisations. At least conceptually, such arrangements can improve the efficiency and effectiveness of service delivery by helping build scale and encouraging worthwhile collaboration.

However, submissions suggest that the experience of the NFP sector with the lead agency model has been mixed (for example, UnitingCare Children, Young People and Families, sub. 148). Participants identified a number of potential benefits of this type of arrangement including allowing smaller NFPs to reduce their administrative costs by pooling purchasing requirements and sharing support services. It was also felt that the lead agency model can reduce the time and costs associated with preparing funding applications, enhance program planning and address staff retention problems by allowing organisations to offer longer employment contracts, joint staff training and professional development programs (Australian Red Cross, sub. 165).

The networks created through collaborative ventures can encourage innovation and enhance the transfer of knowledge and ideas. So, facilitating collaboration through a lead agency model may have broader benefits as the NFP sector appears to have no greater propensity for collaboration than other sectors. In this regard, Hetherington observed that:

While non-profit organisations share common goals around fulfilling social need and combating disadvantage, they often find it difficult to co-operate in pursuit of these goals. Instead the sector exhibits a high degree of competition, particularly around funding, reminiscent of the private sector. (2009, p. 2)

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However, there were also concerns that the arrangement can involve governments shifting significant costs onto NFPs, including by duplicating existing government accountability and reporting mechanisms. The Illawarra Forum Inc. considered:

The lead agency model whilst aiming to create a more co-ordinated and efficient service system results in a transfer of certain regulatory functions from government to a large non-government agency. The monitoring of service quality and outcomes is then the responsibility of the lead agency, which is required to develop regulatory and accountability infrastructure (for which they receive government funding) that already exist in government agencies. This results in inefficiency and duplication of effort and a lack of demonstrable gains in delegating this function. Furthermore, in our experience in the Illawarra, the inexperience of some lead agencies in operating as a funder can create less transparent and less effective monitoring, regulation and contractual arrangements. It is also our experience that there is little accountability to government or transparency about how those partnerships are administered and/or maintained, once the funding has been received. (sub. 52, p. 45)

Another concern of the sector is that the lead agency model can contribute to a loss of diversity, to the detriment of the ability of community organisations to deliver more specialised services. This may be especially problematic in rural and remote communities where the number and diversity of service providers is already limited (Australian Red Cross, sub. DR 296). A particular concern expressed in submissions and consultations is where the lead agency starts providing local services itself, rather than working through smaller agencies. Reflecting concerns about the potential for loss of diversity, Leonie Leong argued:

Where a number of ‘Lead provider relationships’ have been arranged, I have found that this has generated an ‘artificial competitiveness’ where Third sector organisations are ‘cannibalising’ each other’s resources (i.e. underpricing costs in budget bids), the bigger organisations start ‘gobbling up’ the little ones sometimes creating a reverse monopoly that decreases diversity (i.e. ‘dominant bully’ gets established and things that do not fit ‘sausage production line’ are eliminated). (sub. 89, p. 3)

During consultations the NFP sector raised a number of other concerns including:

- governments not sufficiently recognising the diversity in the sector and simply assuming all NFPs are able to work together, despite fundamental differences in missions, structures and processes
- working with a lead agency can sometimes prove more difficult than working with government agencies. In particular, there were concerns that lead agencies are sometimes poor at consulting with partner organisations, lack transparency and do not always ‘manage money well’.

Participants suggest that successful, lead agency arrangements provide clarity around roles, responsibilities and risk management, and a degree of flexibility and adaptability to local conditions. UnitingCare Children, Young People and Families

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— referring to a consortium involving Unifam and Relationships Australia — considered:

[T]he lead agency and partner agency relationships have worked well because memoranda of understanding (MOUs) are clear with respect to responsibilities, risk management and processes by which disagreements between partners will be resolved. Reporting lines and structures do not cut across the governance arrangements of member organisations and the lead agency drives day-to-day program management. (sub. 148, p. 18)

And, The Benevolent Society observed:

Successful lead provider models are flexible and adaptable to local strengths and needs, and involve genuine collaboration between organisations and community members. They build capacity within the community overall as well as enabling services to develop a local identity suitable to the context within which they are operating. (sub. 100, p. 13)

Overall, feedback from participants suggests that the relative merits of adopting lead agency funding are context specific and much depends on how well these types of arrangements are implemented.

### **The proliferation of service agreements and contracts is problematic**

The sheer number of government service agreements and contracts that individual community organisations need to manage in order to maintain the financial viability of the services they deliver is itself an administrative burden. As noted earlier, this is then compounded by a lack of consistency in tendering, contractual and reporting requirements within and across Australian governments. In its submission, Catholic Social Services Australia noted:

In a recent survey, 19 of Catholic Social Services Australia's member organisations reported that they were bound by some 620 separate contracts and funding agreements with government at state and federal level. (sub. 117, p. 13)

And, Southern Youth and Family Services reported:

Southern Youth and Family Services (SYFS) is located in the Illawarra region of NSW and provides a range of social welfare services to youth and families in the local area, Shoalhaven and a youth refuge in Goulburn. In this financial year SYFS is providing 32 services — under 19 different contracts — 11 services funded through 11 separate contracts by 3 Federal Government departments and one Federally Funded Consortium (FaHCSIA, Health and Ageing, DEEWR); 12 services through 3 contracts in 4 joint State and Federal Programs; and 9 services through 5 contracts with State Government Departments (Community Services, Housing NSW, Department of Health, Education and Training and Juvenile Justice). (sub. 110, p. 1)

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Clearly, the number of government service agreements and contracts in relation to human services reflects the scope of government involvement in the delivery of these services. That said, a valid issue is the extent to which providers are being contracted by multiple government departments and agencies (including across levels of government) to deliver services that essentially address different and, to some extent, overlapping aspects of the same problem. In its submission, Catholic Social Services Australia (sub. 117) raised the possibility of creating ‘flexible funding pools’ that would allow providers to offer better integrated and more flexible services. Potentially such an arrangement would also provide a mechanism for rationalising the number of government service agreements and contracts individual providers would need to enter into.

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## References

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