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# D Survey of government agencies engaging not-for-profit organisations in the delivery of human services

## D.1 Overview of key findings

In order to better understand recent trends and the motivations and perceptions of the public sector, the Commission conducted a survey of Commonwealth, state and territory government agencies with significant engagement with the not-for-profit (NFP) sector in the delivery of human services. Responses were received from 43 agencies and detailed information was provided on government and NFP engagement in relation to 109 programs.

The survey response confirmed the perception that a high share of many human services funded by government agencies are delivered by external agencies:

- For all but two categories of human services (health and emergency), at least half of the government agencies reported that at least 50 per cent of their services (by value) were delivered by external organisations.
- NFP organisations (NFPs) are major providers in most human service areas. Of the services delivered by external organisations, almost half the government agencies reported that over 75 per cent of their program value is delivered by NFPs. Indeed, for 66 per cent of programs NFPs were the only non-government providers.
- The most commonly cited reasons for this heavy reliance on NFPs were that they: provide flexibility in service delivery; are better able to package the services with other services for the target client group; give value for money; and are representative of the clients the program is targeting.

The survey, in conjunction with submissions received from NFPs and governments, suggests government agencies and NFPs view the nature of their underlying relationship very differently:

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- The survey found that overwhelmingly government agencies view their engagement with NFPs in the delivery of human services as a ‘partnership’ (88 per cent of agencies and 79 per cent of programs). In contrast, submissions suggest that many NFPs have quite a different view (appendix J).

The survey confirmed that competitive processes (open and invited competition) play a significant role in allocating government funding among service providers for major programs. These arrangements are more likely to be associated with fee for service funding mechanisms. Invitations to multiple or sole providers were more commonly used for minor government programs. These tend to be associated with grants as a funding mechanism.

In general the use of full cost funding at a program level is more likely to be related to a competitive approach to market and to fee for service. However, a wide range of combinations are possible. It is also common for several funding mechanisms to be used (such as fee for service and grants):

- The majority of government agencies (70 per cent) reported that they only make a contribution to the cost of service delivery for their major programs, although less than 50 per cent took this approach for minor programs.
- Only 25 per cent of programs fully funded all the external providers in a program.

The survey identified the most common methods used for accountability are financial and performance reporting (100 per cent and 97 per cent of programs respectively):

- More surprisingly, in 27 per cent of programs, government agency representation on Boards is used to ensure appropriate governance arrangements are in place.
- Agencies identified difficulties with governance arising from issues such as incompatible data collection, late reporting, limited skills in the NFPs, and inadequate staffing.

The survey sheds light on the attitudes of government agencies towards risk management. It suggests that government agencies generally consider NFPs are best placed to manage risk in relation to the reputational risks of service delivery, financial viability and poor service quality. Agencies typically see government as being best placed to manage the risks associated with discontinuity of service provision (that is, the risk of service failure). However, the responses show considerable variation in approaches, and attitudes, to risk management.

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The survey suggests that government agencies perceive some significant gaps in the NFP sector's capacity to meet the requirements of the government programs:

- The ability to attract new entrants into the field was the most often cited 'major gap' (35 per cent of respondents), followed closely by the ability to co-fund (29 per cent) and board capacity (24 per cent).
- The ability of NFPs to evolve to meet changing client needs was surprisingly identified as a major gap for 17 per cent, and a minor gap for 69 per cent, of programs. These views are quite different to those of NFPs, which report this as an area of strength for NFPs.

Very few programs regarded lack of essential equipment or appropriateness of venue/office as a major gap in capacity. Again, this is quite different to the views of NFPs, which emphasised these barriers to improving efficiency and effectiveness.

The survey reports that the majority of government agencies are taking steps to address at least some of the sector's concerns and are actively working with the sector to improve the capabilities of community organisations:

- Government agencies reported that, in relation to 70 of the 109 programs they provided information about, they were investigating or trialling new or innovative approaches to at least one of the following areas: monitoring and evaluation (45 per cent of all respondents); contracting arrangements (36 per cent); governance and accountability (35 per cent); and risk management (29 per cent).
- Nevertheless, consultations and submissions suggest that the views of the NFP sector and those of government about the effectiveness of recent changes appear markedly different.

In a separate survey, undertaken by the Commission for a benchmarking exercise, local governments were asked about their involvement with NFPs. This survey found that local councils provided support for NFPs mainly through small grants for specific activities and through the provision of venues at less than commercial cost. Few local governments used NFPs for delivery of services, and secondment of staff to NFPs was also relatively low.

## **D.2 About the survey and respondents**

As part of the study, the Commission surveyed Government departments and agencies with significant engagement with NFPs in the delivery of government funded human services. This informal survey was intended to provide a window into the utilisation of NFPs in the delivery of human services on behalf of

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government. It also sought information on different approaches to engagement, and canvassed government agencies' views on the efficiency and effectiveness of the various approaches.

The Commission felt this survey was necessary because information on relationships between NFPs and government agencies is largely anecdotal. While the survey has not entirely overcome this problem, the quality and breadth of information garnered allows useful conclusions to be drawn.

## **The survey**

The survey targeted those government departments that engage with NFPs in the delivery of government funded human services. It was sent to the central agency of each state and territory government (usually the Department of Premier and Cabinet or Chief Minister's Office) which distributed the survey to relevant departments and agencies. In addition five Commonwealth departments, in key human service areas, completed the survey.

For each department or agency, the survey (part 1) sought information on the nature of their engagement with NFPs. The Commission asked that the first section be completed by a representative of the agency with a view to reporting the agency's motivations for engaging with NFPs and their approaches to external service delivery.

More detailed information was sought for a sub-set of programs (part 2), with each department or agency invited to nominate up to four programs that reflected the range of arrangements used and, to the extent possible, including examples of different funding and contracting arrangements. While this approach meant that the aggregate information is not representative of the 'average' experience, it allowed a much wider range of approaches to be identified.

Several state and territory governments provided valuable feedback on a draft of the survey questionnaire. In June 2009, the finalised questionnaire was provided to the central agency in each state and territory — for distribution and coordination of responses within jurisdictions — and to Australian Government departments with regular engagement with NFPs in the delivery of human services. The Commission indicated that all data collected from the survey would be treated as confidential and would not be reported in any way which would identify individual departments or agencies. There was no intention of making comparisons across jurisdictions nor to benchmark performance.

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## Survey participants

Responses were received from all state and territory governments, and five of the seven Australian Government departments approached. Table D.1 lists the number of responses received from agencies and programs covered in each jurisdiction.

Responses from nine programs were excluded as they were outside the target area of human services. However, the comments from excluded programs were considered in the overall view. Some departments responded to part one of the survey more than once and to varying degrees; in these situations only the most complete set of responses was included so as not to skew results towards those responses replicated by the same agency.

**Table D.1 Survey responses received**

<i>Government</i>	<i>Agencies</i>	<i>Programs</i>
	No.	No.
Australian Government	5	18
Australian Capital Territory	4	11
New South Wales	4	13
Northern Territory	7	10
Queensland	3	12
South Australia	4	13
Tasmania	8	9
Victoria	4	14
Western Australia	4	9
<b>Total</b>	<b>43</b>	<b>109</b>

*Source:* Productivity Commission survey.

Response rates to each question varied throughout the survey. Most questions were answered by 80–90 per cent of survey participants, but some questions (notably on program administrative costs) were only answered by a handful of respondents. Quantitative results presented in this appendix — including those in tables D.2 to D.16 — are based on questions answered by more than 80 per cent of survey respondents. Where percentages appear in the figures and tables, they are based only on the answers of those participants who responded to the question.

### *Profile of respondents*

The Commission survey targeted those agencies that deliver human services and engaged with the NFP sector in delivery. Of the 43 agencies responding to the survey:

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- 47 per cent provided family and community services
  - 42 per cent Indigenous services
  - 23 per cent culturally and linguistically diverse (CALD) services
  - 23 per cent disability services
  - 17 per cent health services
  - 16 per cent housing services
  - 9 per cent employment services
  - 9 per cent emergency services.

The range of programs represented in the sample is very broad. Some date back to the 1960s and 1970s:

- 19 had annual budgets below \$1 million in 2006-07
- five spent more than \$1 billion in 2006-07.

The programs were located in both regional and urban Australia and their clients are from a variety of backgrounds. While not in any way a representative sample, the responses to part 2 of the survey do reflect a wide variety of programs.

### **D.3 Survey findings**

The main findings from the survey are presented in this section. The raw data is provided in the following section. Table references refer to this data section.

#### **Use of not-for-profit organisations in delivery of human services**

As reported in chapter 4, in recent years there has been a clear trend towards governments increasingly funding NFPs to deliver human services, with strong growth in the sector accompanied by a rise in the proportion of income received from government.

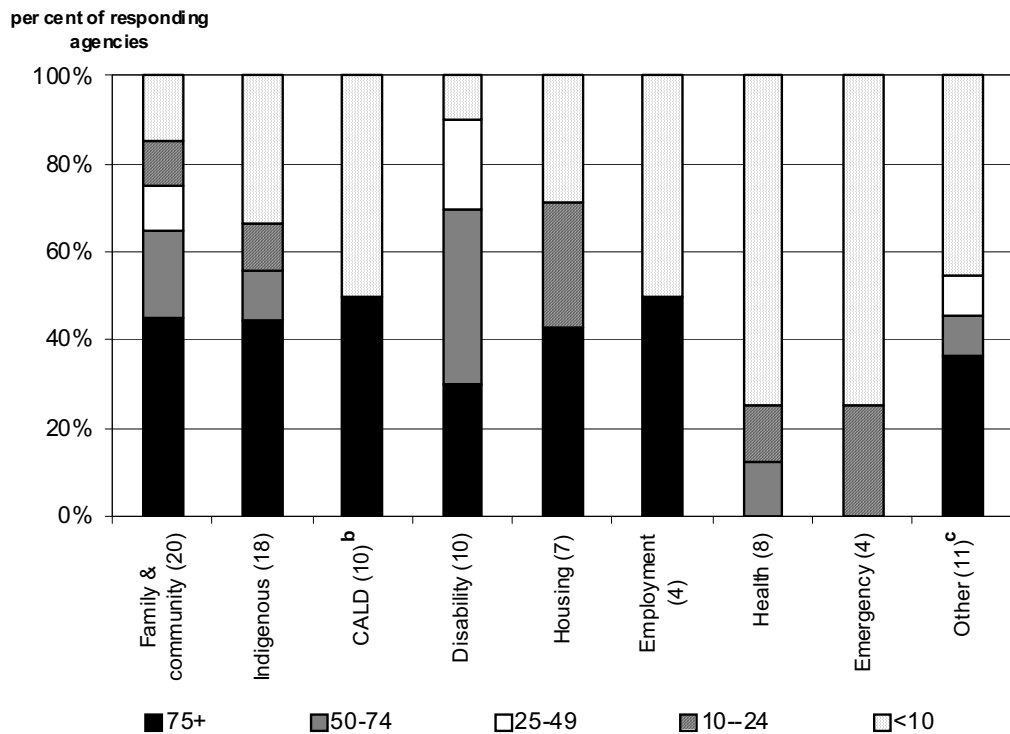
##### *Agencies use external suppliers for a range of human service delivery*

The survey responses confirmed the perception that a high share of many human services funded by government agencies are delivered by external agencies. Figure D.1 (see also table D.2) shows that of the 20 agencies that identified family and community services as an area where services are delivered externally, nine indicating that more than 75 per cent of total funding for those services went to

external agencies. Some service types showed only small amounts of external delivery — such as health and emergency services. For example, of the eight agencies indicating that they engaged external organisations to deliver health services, none outsourced more than 75 per cent by value. Notably, of agencies outsourcing services in the CALD area, approximately half reported external funding of less than 10 per cent while the remainder reported levels in excess of 75 per cent.

**Figure D.1 Services externally funded by participating agencies**

Proportion of agencies in each category reporting funding for external organisations and the proportion of total services funded, by value of services (number of responses in parentheses)<sup>a</sup>



<sup>a</sup> Agencies could report more than one area of engagement. <sup>b</sup> Culturally and Linguistically Diverse. <sup>c</sup> 'Other' included education and training, art and culture, transport, crime prevention, and legal.

Data source: Productivity Commission survey, survey question 1.1, table D.2.

### *NFPs are major providers of these services*

NFPs are major providers in most human service areas. Of the services delivered by external organisation:

- almost 50 per cent of agencies reported that over 75 per cent of their program value is delivered by NFPs (table D.8)

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- 66 per cent of programs reported that NFPs were the only non-government providers (table D.12).

*For most agencies the use of NFPs has increased*

Respondents were asked for their perspectives on the reasons behind the increase in government funding of services delivered by NFPs. In responding to this question most agencies (71 per cent) confirmed that the level of external service delivery had increased; 24 per cent said that the level was unchanged in their situation and 6 per cent had experienced a decrease.

Chapter 12 identified three possible explanations for the trend towards increasingly using external organisations to deliver human services:

1. outsourcing of services previously provided by government
2. increased government funding of services already provided by NFPs
3. the development of entirely new services in response to emerging needs in the community. This could be driven by government seeking to address problems with the help of NFPs or by NFPs making a case to government to support a solution they have developed.

The survey aimed to test the second explanation, which Lyons (sub. 169) considered to be the main explanation. Respondents were asked the following question:

There is debate about the reason why Government funding of NFPs for service delivery has expanded — one view is that Government is increasingly taking at least some responsibility for the provision of services that NFPs have traditionally provided. Do you agree/disagree? Why?

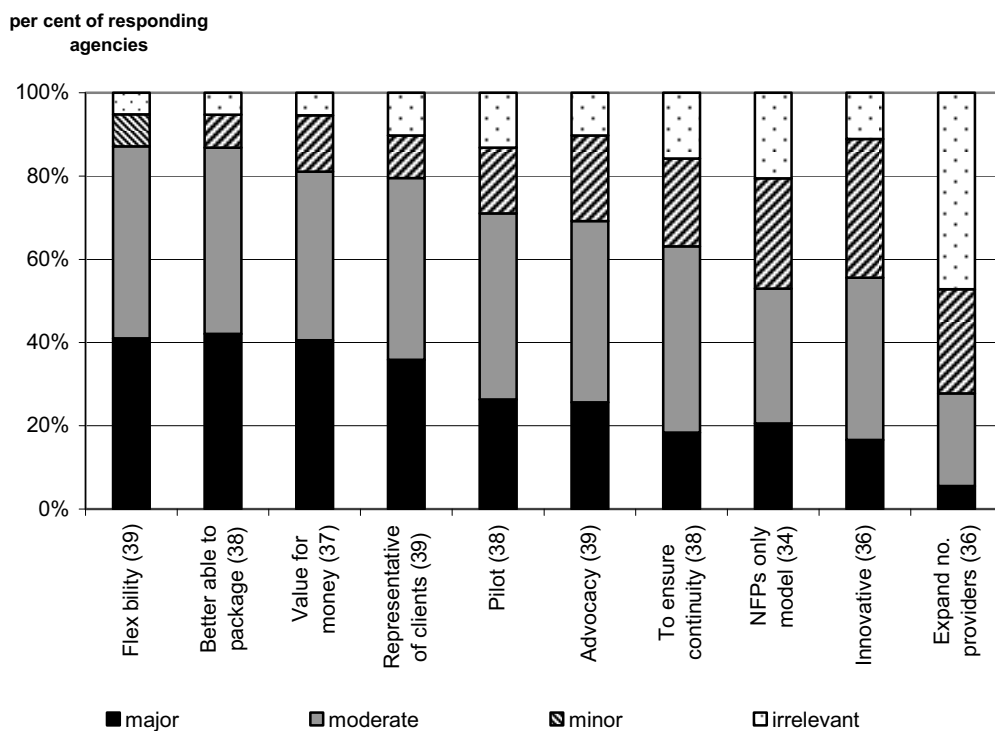
There was no consensus among respondents on this issue. Amongst the agencies that had experienced an increase in external service delivery, the reasons for the increase were varied. For example, one agency identified a range of reasons for the increased use of NFPs in providing disability services:

...funding for Non Government agencies to deliver disability services has increased steadily over recent years. this has been a result of recognising the diversity of service and service delivery strengths that can be achieved this way, the shared responsibility of providing services to people with disabilities across the community (not just by government) and efforts to give people with disabilities options and capacity for choice making in the selection of service providers.

*Government agencies value NFPs flexibility and value for money*

The survey asked agencies about their motivations for engaging NFPs in service delivery (table D.3). Flexibility of NFPs, their ability to package services and value for money were the most commonly cited motivations for engaging NFPs (figure D.2). The motivations for engaging with NFPs were largely similar across the different agencies.

**Figure D.2 Motivation for engaging with NFPs<sup>a</sup>**  
(number of responses in parentheses)



<sup>a</sup> Respondents were invited to provide more than one motivation for engagement.

Data source: Productivity Commission survey, question 1.4, table D.3.

In responding to the question as to why agencies use NFPs, many agencies said that the NFPs that they deal with are more efficient in delivering services than the agency itself. Reasons provided for choosing to use NFPs in service delivery included the following:

- NFPs are best place to respond to community needs and are closer to the target group of a particular service. This was particularly so amongst agencies funding Indigenous services. For example, one agency said ‘local services are closer to communities and best understand their needs and expectations’.

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- Some NFPs are able to access resources that are unavailable to the government, such as volunteers (for example, rural fire fighters) and private sponsorship (for example, community crime prevention services).
  - Where NFPs have a history of involvement in an area, such as mental health, they have the benefit of considerable expertise and links to the target group.
  - NFPs are seen as being more flexible and adaptable to client needs, as well as having the ability to package government funded services with other services.

Some agencies identified the need of the agency to focus on core business as a motivation for engaging external organisations in service delivery; these agencies employed NFPs for non-core business.

### **What models of engagement are used?**

As outlined in chapter 12, there are a number of different models of engagement available to government agencies funding NFPs to deliver human services. The most appropriate model depends on the characteristics of client needs, government needs and the nature of service providers. Government agencies and specific programs were asked about the model of engagement used in external delivery of human services. The main features of the model surveyed are the approach to market (competitive or not), the funding mechanism (fee for service, block or grant funding or client vouchers), the funding basis (full cost of contribution) and duration of funding (fixed period or recurrent). The results are presented in this section.

#### *Approach to market*

In consultations and submissions many NFPs expressed the view that open competition is used excessively, and that use of competitive processes more generally is widespread (appendix J). However, these views may reflect more the level of concern with these models than the extent to which these models are actually used. The survey sought to identify the relative use of different arrangements by agencies:

- For major programs, competition models are used by the majority of agencies, with 37 per cent using open competition, and 23 per cent using invited competition.
- Non-competitive approaches are more likely to be used for minor programs (61 per cent) (figure D.3, table D.4). This might reflect the administrative costs of

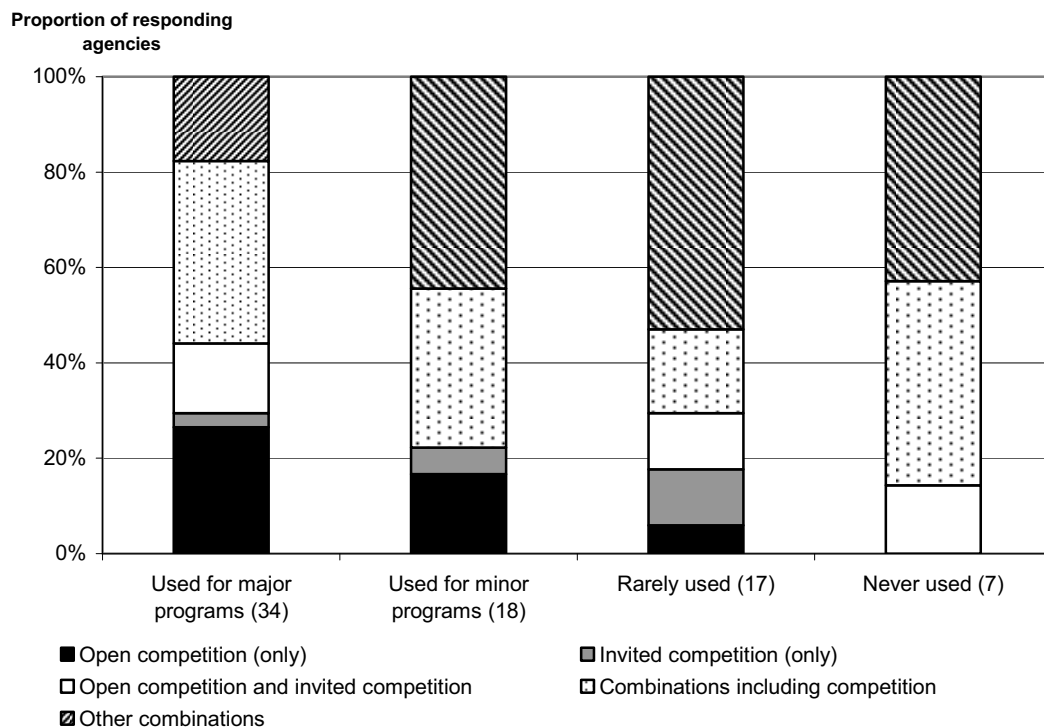
competitive tenders, or that minor programs are more tailored to specific client groups and issues and hence seek more local and specialist providers.

Some programs reported that they undertook several different approaches to market. Just under 50 per cent of programs reported using open competition, with the same share reporting they used invited competition. A smaller share of programs reported using non-competitive approaches (table D.9).

Where competitive approaches were used, there was a distinct preference for invited competition amongst those programs where NFPs are the only providers available for external service delivery. In a similar vein, non-competitive approaches were more common amongst those programs that do not use for-profit organisations in delivering services.

### Figure D.3 Nature of engagement — approach to market

Number of surveyed agencies employing different market approaches (number of responses in parentheses)<sup>a</sup>



<sup>a</sup> Respondents could select more than one response.

Data source: Productivity Commission survey, question 1. 5, table D.4.

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While the use of a competitive approach to market would be expected to be strongly associated with fee for service arrangements, the survey responses suggest that grant funding is almost as common.

*The majority of agencies and programs make only a contribution to cost*

An issue of major concern to NFPs was less than full cost funding. In consultations most governments agreed that they often only made a contribution to costs for a range of reasons (chapter 11). The survey results suggest that, at least in the agencies' view, more programs are fully funded than reported by the NFPs. This may reflect a difference in opinions on what constitutes full cost funding:

- At the agency level, 69 per cent reported that they made a contribution to the cost rather than full cost funding for major programs. For minor programs this was 45 per cent (table D.4).
- At the program level, 55 per cent of programs surveyed reported contributing to the cost of service delivery rather than fully funding, whereas 25 per cent reported fully funded the service. In the remaining 19 per cent of programs some providers are funded on a full cost recovery basis while others are only partly funded (table D.9).

In general it would be expected that full cost funding would be associated with taking a competitive approach to market. This relationship was weaker than expected, with a number of programs that took a competitive approach to market making only a contribution to cost. However, the question was not clear on whether this included co-payments by clients, so the relationship may be stronger than indicated by this response.

*Duration of funding is predominantly fixed period*

Funding to external service providers can be arranged in one of two ways; fixed period (such as a 12 month contract or one-off grant) or recurrent (where funding is ongoing provided certain conditions or standards are met). Fixed period funding was employed by 57 per cent of the agencies surveyed for their major programs. This share was higher for minor programs (65 per cent) (table D.4).

Similarly, fixed period funding was more commonly used by programs (75 per cent of respondents) than recurrent funding (55 per cent). For roughly a third of respondents, both models were used (table D.9).

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There was a strong relationship between provision of fixed term funding and the use of a competitive approach to market at the program level. This is not unexpected as most market based approaches require returning to market on a regular basis.

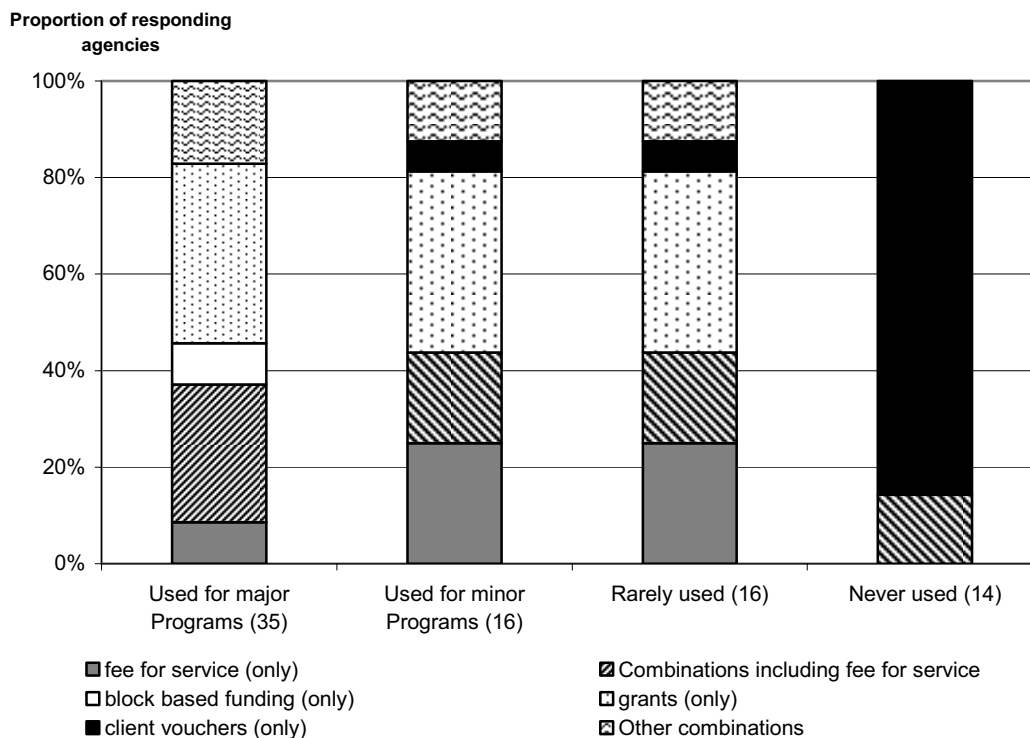
*Grants remain the most common funding mechanism, rather than fee for service*

Funding mechanism refers to the type of funding given to external organisations in exchange for service delivery. Fees for service are typically contingent on the provision of specified inputs and/or the achievement of required outputs. Client vouchers provide the final user of a service the ability to choose a service provider, which is then paid by the government for the service provided. In practice, the term ‘grants’ is used very broadly and can cover a range of different funding arrangements including one-off grants, submission based grants, operational grants and block funding grants. It is likely that, to some extent, responses to this question reflect differences in how respondents define grants in the context of their own funding arrangements:

- Fee for service arrangements were used by 22 per cent of agencies for their major programs, with 45 per cent using grants (figure D.4).
- Agencies used fee for service for a slightly higher proportion (33 per cent) for their minor programs.
- Overall, grants were by far the most common funding mechanism identified in the survey, although often in conjunction with other funding mechanisms. Ninety per cent of agencies and 75 per cent of programs indicated that grants are a component of their funding arrangements.
- This was distantly followed by block based funding (69 per cent of agencies and 45 per cent of programs) and fees for service (63 and 45 per cent respectively).
- Only one agency and one of the selected programs used client vouchers as a funding mechanism (tables D.4 and D.9).

## Figure D.4 Nature of engagement — funding mechanisms

Number of surveyed agencies employing different market approaches (number of responses in parentheses) <sup>a</sup>



<sup>a</sup> Respondents could select more than one response.

Data source: Productivity Commission survey, question 1. 5, table D.4.

### *The number of NFPs engaged has only minor effects on the model used*

Of the 109 programs surveyed, 36 stated that they engage with less than 10 NFPs, whereas 18 engage with over 99 NFPs. To explore whether the model of engagement varies systematically with the number of NFPs, the program responses were divided into four categories based on the number of NFPs the program engages for service delivery:

- There was no marked difference in the use of open or invited competition between programs that engage with a large number of providers as opposed to those that engage with less.
- Those programs that engage with a large number (greater than 99) of NFPs were more likely to fully fund at least some of their external service providers.
- Those programs engaging with over 99 NFPs were more likely to provide recurrent funding. This may be a consequence of the type of services that are best provided by many smaller organisations. For example, all supported

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accommodation assistance programs surveyed indicated that they provide recurrent funding to some service providers.

A lead agency model was used by 23 per cent of programs. The number of NFPs that a program engaged with tended to be lower for those using the lead agency model.

## **Governance arrangements and performance monitoring**

*Most governance arrangements are the same for NFPs and for-profit providers*

The majority of programs (66 per cent) reported using only NFP providers. But for those that used both NFP and for-profit providers 85 per cent said that they apply a common arrangement to all non-government providers (table D.12).

For the few that treat for-profit providers differently the reasons included:

- specific requirements due to different nature of services delivered by for-profits
- commercial-in-confidence reporting
- similar requirements but funding arrangements differ (for example, not block funded)
- more formal arrangements for for-profits
- some service providers have more rigorous internal monitoring and evaluation processes than others.

*Governance requirements tend to be comprehensive*

Reporting on performance was an area of major concern for NFPs (appendix J). They stated that it was often heavy handed, time consuming and added little if any value to the efficiency or effectiveness of their service delivery. They also suggested that reports often disappeared into a ‘black hole’, and wondered about how agencies used the information.

Programs were asked about the major features of their systems for ensuring good governance and performance. Most programs surveyed used multiple mechanisms to monitor the inputs or output of services provided at the government’s expense.

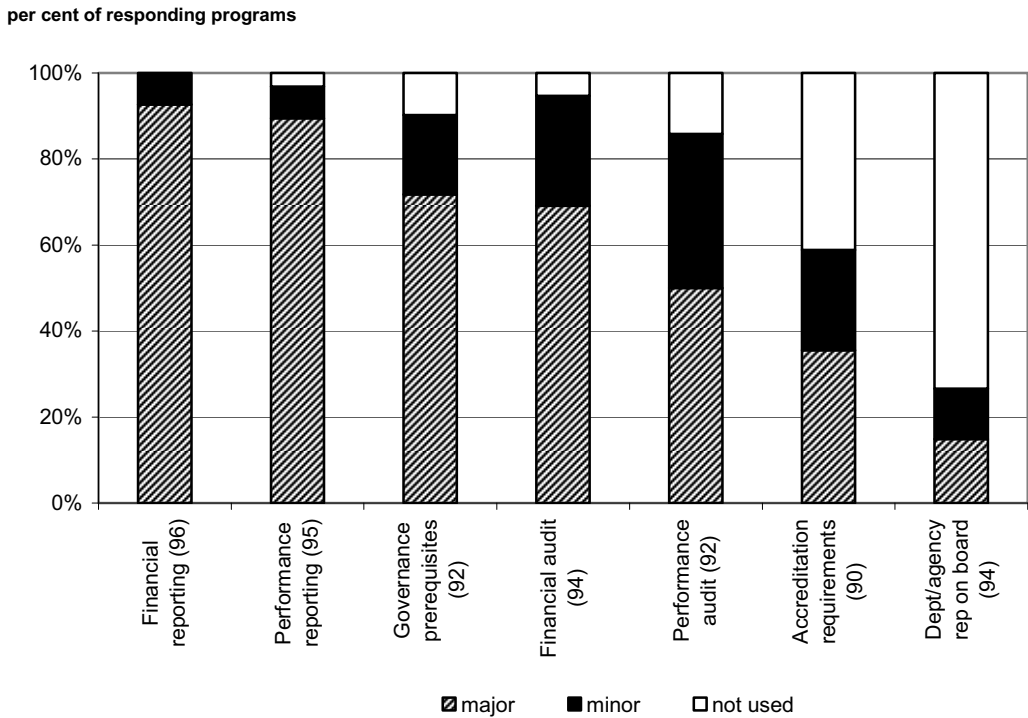
All the programs surveyed use some form of financial reporting, with 93 per cent saying it was a major component of their governance framework. Performance reporting was used by 97 per cent of programs, with 89 per cent indicating it was a

major component of their governance framework. Governance prerequisites were used as a major feature by 72 per cent of programs, and a minor feature by 18 per cent. An agency representative on the board of the service provider was used as a major mechanism for meeting governance and accountability needs in 15 per cent of programs, and a minor mechanism in a further 12 per cent (table D.11).

Figure D.5 shows the relative use of the different features of governance frameworks. There was no significant variability in the uptake of these accountability features across program types, budgets or sizes.

Programs report a heavy reliance on internal monitoring and evaluation, rather than using independent reviewers (table D.13). Client interviews or client interview surveys were used by over 75 per cent of respondents.

**Figure D.5 Key features of governance and accountability frameworks used in program delivery <sup>a</sup>**  
(number of responses in parentheses)



<sup>a</sup> Agencies were invited to select more than one response.

Data source: Productivity Commission survey, question 2.5, table D.11.

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### *Difficulties faced by agencies in monitoring governance and performance*

The survey asked programs to report on any difficulties they experienced in monitoring performance or enforcing governance arrangements.

The most frequently cited difficulty was the limited capacity of NFPs to collect information and report it in a timely fashion. For example, one participant said:

Difficulty in receiving quarterly service data reports from a few NFP[s] due to their time constraints for collating the data. One NFP has difficulty collating data due to an absence of in-house data systems. However the in-house data system is currently being developed.

Another respondent suggested that difficulties were caused by a lack of adequate infrastructure for reporting:

Difficulty in clearly articulating outcomes. No funds to establish proper IT infrastructure for data collection. Little to no capacity to undertake analysis of data or evaluations. [*sic*]

One program attributed the lack of timely reporting to rapid staff turnover:

Difficulties are experienced when NFP's [*sic*] do not collect their required data or there is a significant time lag. This is a common problem linked to new staff not knowing how to complete the data and when organisations do not appreciate its importance. There is training in place to support this as well as the development of KPI's [key performance indicators] and systems for collecting this and reporting it back to providers.

Problems with reporting are exacerbated where funding is one-off, as little incentive exists for the NFP to invest in providing information to the agency. One program that administers grants said that almost half of the recipients did not comply with reporting requirements.

The lack of reporting which is received by almost half of all providers limits the ability of the department to appropriately determine the needs of the program. Due to the nature of the one-off capital grant, it is difficult to breach an organisation for non-compliance

Others respondents mentioned that NFPs may not fully grasp the importance of reporting to the program.

Lack of understanding of reporting requirements and resistance to change, inaccurate reporting, limited internal systems, policies and resources to support monitoring and evaluation by both parties.

Further, some agencies thought that NFPs do not understand the perspective of the government.

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Suspicion of motives of government on behalf of NFPs. Lack of understanding of how government works and role of the public service.

In one program, NFPs had refused to participate in a newly developed appraisal process.

## **Perceptions of partnerships**

The NFPs reported that while there was much talk of partnership with government agencies they often felt that the relationship was often more one of ‘command and control’ (appendix J). Eighty-eight per cent of agencies responding reported that they see their relationships with NFPs as a partnership (table D.5). This was slightly lower for programs, with 78 per cent reporting that the arrangement was a partnership (table D.10).

### *The reasons for viewing the relationship as a partnership varied*

Both agencies and programs were asked whether or not they considered their relationship with NFPs to be a partnership and why. The responses indicated what they considered were the features of a partnership.

The key reasons why the arrangements were considered as a partnership included:

- joint decision making and shared responsibility
- joint delivery of services
- co-contribution to cost of services
- frequent communication
- common goals.

The underlying themes in responses were consistent across programs and agencies.

For a number of agencies there are formal frameworks for collaborative service delivery that aim to encourage partnerships in the programs delivery by the agency. An example given is the *Working Together for NSW* agreement between the NSW Government and NSW human services NFPs.

Other responses identified some or all of the above listed themes:

Partnership does not mean a formalised purchaser provider relationship but one based on mutual respect for the differing roles in providing service to communities and working together to achieve mutually defined outcomes.

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One respondent identified a number of common practices, but recognised that legal partnerships were not created.

Current practice includes:

- Services are jointly delivered ...;
- Mutual contributions to program design and governance;
- Limited recourse to formal contract negotiations;
- Some use of formal partnership agreements.

The Department ... does not use formal ‘alliance’ (or similar) formal partnership contracting methods.

Program responses identified the practices that take place within the agencies’ frameworks. Some of the responses focussed on one particular aspect of the partnership arrangement:

Monthly meetings are held between [the agency and service providers] to discuss program development, capacity, referrals into the program, service data and any other outstanding issues.

While others were more encompassing in their views of partnership:

Negotiation and agreement on outputs and performance requirements, transparency in decision making (and shared where possible), shared goal focussed on client/community needs and outcomes, co-chaired sector meetings, mutual respect for different roles and responsibility in service provision, opportunity for sector to have participation into govt policy (level of participation varies from input to collaboration), shared training opportunities, sharing of resources and encouraging discussions on ideas for innovation, service delivery issues, re-negotiate Agreement.

Similarly to the agency level responses, some program respondents indicated that their relationships with NFPs included only some features of a partnership:

While the program management is outsourced to an NFP, it still has a strong association with the government and therefore the government maintains a interest in program delivery, program quality and safety.

Some agencies indicated that their relationship was a partnership ‘by intention but not in a legal sense’:

Yes. Not in a legal sense but in all other ways it is driven by a philosophy of shared responsibility for service delivery and the allocation of available resources.

Others considered that strong consultation arrangements constitute a partnership:

Yes. It is a partnership in so far as the sector is widely consulted before and during implementation.

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### *Characteristics of partnerships that affect efficient and effective service delivery*

Agencies were asked to select those characteristics of partnership that they consider important, somewhat important, or not important to the efficient and effective delivery of services (figure D.6, table D.8).

A strong theme amongst respondents was the importance of open communication between the government agency and external service providers:

- Reflecting this, virtually all respondents considered the potential for feedback to be very important or somewhat important for the effectiveness of program delivery, with 76 per cent regarding it as very important.

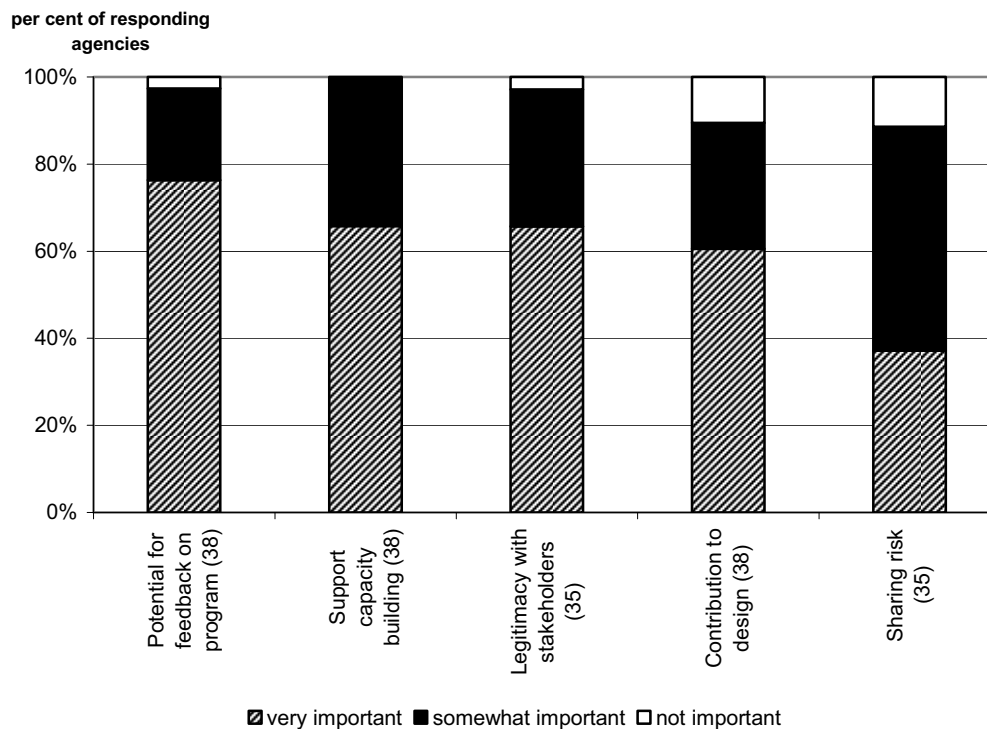
Providing support for capacity building and engaging NFPs in the program design phase were also considered very important by the majority of agencies (66 and 60 per cent respectively). Similarly, legitimacy with stakeholders was deemed as very important by about 66 per cent of agencies.

Of the options presented, sharing risk was considered ‘very important’ by the least number (37 per cent) of agencies, but received the most ‘somewhat important’ responses (table D.6). Under a legal definition of a partnership, sharing risk is a fundamental part of such a relationship.

Agencies were also invited to provide other characteristics considered important for the effective delivery of services in a partnership model. These included:

- government support for changing processes to progress sector reforms
- formal collaboration on program governance
- long term contracts with adequate indexation
- transparent pricing to discourage inequitable or non-transparent dealing.

**Figure D.6 Characteristics of a partnership considered important for efficient service delivery <sup>a</sup>**  
(total number of responses in parentheses)



<sup>a</sup> Agencies were invited to select more than one response.

Data source: Productivity Commission survey, table D.6, question 1.7.

### *Difficulties experienced in establishing partnerships*

Agencies were asked if they had experienced any difficulties in establishing efficient and effective partnerships with NFPs. Thirty-five of the 43 agencies responded to this question.

The most commonly cited difficulties were:

- long term inconsistency in NFPs (staff turnover, capacity and long run viability)
- limited capacity of NFPs
- different objectives and priorities that are not aligned to those of government agencies
- government requirements too onerous for NFPs.

Other difficulties identified included NFP's boards with inadequate skills and resources, and NFPs not adapting to changing government requirements.

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## Risk management

While risks associated with program delivery are frequently complex, the quality of risk management practises in the funding and procurement process has an impact on the efficiency and effectiveness of NFPs delivering government funded services (chapter 12).

There is a view amongst some funding agencies and funded NFPs that risk is poorly understood and managed. NFPs have also expressed strong concern that poor risk management has led to inappropriate cost shifting (appendix J).

Risk sharing is an element of partnership, however, in reference to the important characteristics of the partnership model it was ranked last by agencies (table D.6).

*NFPs were regarded as best placed to manage risks other than discontinuity of service or risks to the program agency*

The survey asked programs about which party they consider best placed to manage various risks — risks to clients of poor quality or service discontinuity, risks to NFPs of financial or reputational risk, and risks to the agency itself (table D.16).

### *Risks to clients*

The majority of agencies (74 per cent) saw NFPs as best placed to manage risks to clients from poor service quality, although for 44 per cent of these agencies, this was a joint responsibility with the agency. The pattern was reversed for risks to clients arising from service discontinuity, with 38 per cent seeing the NFP as best placed, but 42 per cent of these were jointly with the agency. Very few respondents saw the client as well placed to manage risks to clients.

The reasons for these views included that NFPs delivering services have significant control over service quality through their close proximity to the client, and are best placed to act on this in the short term. Funded organisations were also seen as able to use annual self assessment against agreed standards and other internal quality controls to address quality issues. Several respondents considered that NFPs were the best party effectively because of the absence of government monitoring of service quality.

Where respondents considered that the agency alone was best placed to manage quality risks, this related to government's role in funding (and associated reputational issues), in monitoring and in imposing external standards. In one case, quality issues were seen as linked to a lack of skilled staff and program

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development that required a service development and training approach by the agency.

### *Risk to NFPs*

Risks to NFPs were overwhelmingly viewed as the responsibility of NFPs to manage. Only 10 per cent of respondents thought that the program agency alone was best placed to manage financial viability risk and 8 per cent for managing reputational risk. A much higher share saw joint management by the NFP and agency as most appropriate to manage risks to NFPs (32 per cent for financial viability, and 43 per cent for reputational risk).

The main reason provided was that NFPs have immediate access to the relevant information and ability to act on it quickly. They were also seen as having the incentive to manage these risks.

The role for government in managing risks to NFP financial viability was explained in terms of their regular receipt of financial reports, and strong interest as funders:

Government investment in human services warrants effective financial systems to ensure value for money, consistent and sustainable services, and assumption that funding to NFPs will secure policy outcomes.

### *Risks to the agency*

The questions on the party best placed to manage risk to the agency received the lowest response rate (less than half of the programs answered the question). For those that did answer, there was a strong view that agencies are responsible for managing risks to themselves. Only 4 per cent thought the NFP should be solely responsible and 15 per cent saw it as a joint NFP-agency responsibility.

One reason given reflects several views:

[The] Department is better placed to identify and manage these risks. Some risks, such as political/media issues are not perceived by [the] NFP sector in [the] same way.

### *Agencies have different approaches to risk management*

Survey respondents indicated a wide range of approaches to the management of risk. Some indicated use of the contract or funding agreement to manage the risk and service delivery aspects such as quality. As one respondent stated: ‘the NFP is contracted to manage the risk therefore they should manage the risk’. There was also evidence that some agencies were relying on the expectation of NFPs’ sound

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financial management as required under the funding agreement, or the funded organisation's practice of due diligence, to minimise risks.

Other responses suggested a more sophisticated approach, noting the inherent tension in developing policy and procedures which provide structure and consistency while allowing a degree of flexibility in the management of risk. Some saw both parties as having an equal interest in managing risk:

There is a risk to both parties if a service is poorly planned or delivered.

A number of respondents who considered that the management of risk should be assigned to both the funded NFPs and the funding agency pointed to the greater information available to NFPs to act early on risk, and the agency's responsibility for overall financial and program management. There was also evidence of an appreciation of the dynamics of risk management, and the role that good communication between the parties can play in best managing risk when it arises.

*While many programs did not see NFPs as posing less risk than for-profit providers, there were some significant exceptions*

Respondents were asked whether they see the use of NFPs to deliver the program as involving the same level of risk as for-profit providers. Seventy per cent of respondents considered that the level of risk was the same. However, a number of these respondents qualified this by noting that, while the risks overall were considered the same, they differed between NFP and for-profit providers. For the remaining 30 per cent of responses, two-thirds considered the level of risk in funding NFPs to be less than in engaging with for-profit providers — reasons given for this included the 'shared agenda' between NFPs and the funding agency, and NFPs' mission which was seen as driving them to provide cost effective service and to maintain their reputation, and also to support an appropriate service ethos and standard.

### *Difficulties in managing risk*

Programs were asked about the difficulties in managing risk in relation to the use of NFPs for service delivery.

The small size of many NFPs was seen as having implications for financial viability and also for the capacity to adequately plan for and manage risk. The wide range of NFPs and hence diverse skill levels was viewed as challenging. The difficulty in encouraging volunteers to adhere to organisational policy and other governance provisions was also raised. Respondents also linked poor governance to poor

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financial management practices and decision-making. Several respondents noted the challenge of ensuring good communication with funded organisations, to be able to deal with problems early before they escalate.

Staff turnover was cited as a difficulty in managing risk, while provision of services in regional areas carried financial risks associated with higher costs. One respondent also commented on the challenge for risk management of the small pool of providers alongside the growing expectations of risk management and an increasingly complex pool of clients.

### *New approaches to managing risk*

New approaches were being trialled in relation to risk management for 32 of the 109 programs surveyed (table D.15). These tended to focus on risk assessment processes in service delivery, the use of the requirements of funding agreements and contracts, and the imposition of regulatory frameworks. There was some evidence of a joint approach to reform in this area, requiring change by both parties, with one respondent noting:

This is an ongoing process of looking for better methods of monitoring performance and rewarding performance while encouraging the NFP to take more responsibility for poor performance and therefore more responsibility for the risk.

## **Capacity of NFPs and government response**

### *Gaps in the capacity of NFPs for efficient and effective service delivery*

Program respondents were asked whether they saw a gap between the capacity of the NFPs they engage with and the capacity required for effective service delivery (table D.14). Respondents were also asked to indicate the perceived magnitude of any gap in capacity (figure D.7).

The ability to attract new entrants into the field was the most often cited ‘major gap’ (35 per cent), followed closely by the ability to co-fund (29 per cent) and board capacity (24 per cent).

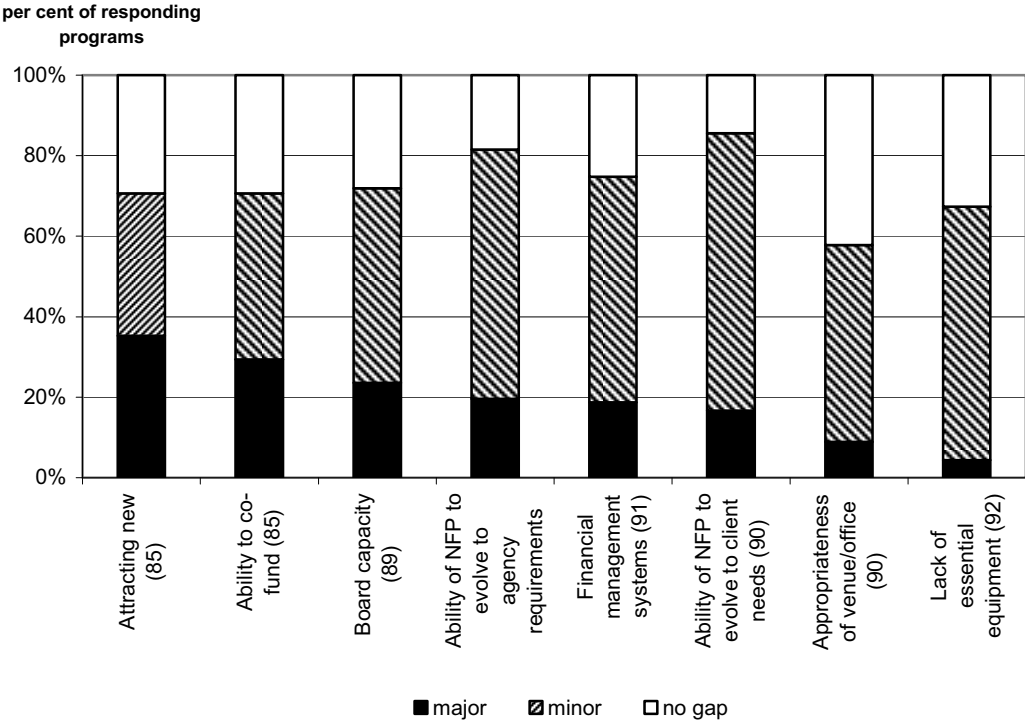
Somewhat surprisingly (given that agencies report valuing the NFP’s flexibility) is that the ability of NFPs to evolve to meet changing client needs was seen as a minor gap by 69 per cent of programs and a major gap by 17 per cent.

Unlike NFPs, programs saw issues such as a lack of essential equipment and appropriateness of venue/office as having only minor or no capacity gaps.

Where NFPs and programs tended to agree was on a gap in the ability of NFPs to evolve to meet changing departmental/agency requirement. Twenty per cent of programs saw this as a major gap and 62 per cent as a minor gap.

**Figure D.7 Gaps in NFP capacity**

Gaps identified between program needs and NFP capacity (number of responses in parentheses) <sup>a</sup>



<sup>a</sup> Agencies were invited to select more than one response.

Data source: Productivity Commission survey, table D.14, question 2.8a.

*Programs are investing in NFP capacity to address gaps*

Over 85 per cent of programs indicated that capacity building in the NFP sector was supported by their agency. Programs were asked to describe the support provided.

The most commonly identified form of support for building the capacity of the sector was the provision of, or funding for, training and development. Many programs provided generic management and governance training, while others provided training and accreditation in specific areas relevant to the services being delivered by NFPs.

A substantial number of programs provided funding to peak bodies and secretariat services for the purpose of whole of sector capacity building. One respondent

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identified research services and funding as a way in which their agency contributes to improving sector capacity.

## Looking forward

### *Government programs and agencies are seeking to improve relationships*

A disconnect appears to exist between government and NFPs' perspectives on program improvement. Government program respondents tended to be more optimistic about the effectiveness of current arrangements, and the future of those arrangements, than NFPs (appendix J).

Numerous programs identified an intention to change the way relationships between NFPs and government function in the future. These changes are largely in response to the difficulties identified in administering programs and forming effective partnerships. Key intentions reported included the following:

- Increasing flexibility in relationships; for example, creating consultation groups and discussion panels and establishing client centred arrangements (outcomes based).
- Increasing the capacity of NFPs; for example, working with peak bodies to build sector capacity, providing targeted infrastructure investments such as developing frameworks for best governance and business practices, training for staff and developing new standards.
- Increasing efficiency and effectiveness; for example, central coordination (such as through common waiting lists for a variety of services), regionalisation and regional coordination, greater use of performance based contracting, and providing funding for research and development.
- Better coordination and consistency in program requirements; for example, developing shared responsibility agreements, increased use of multi year agreements.
- Reduced regulatory burdens on NFPs; for example, single point reporting, simplification of grant application guidelines, simplification of reporting requirements and performance management frameworks (however, some are being made more rigorous to improve efficiency in allocating funding), streamlining processes, and investing in service coordination.

Of the 109 programs, 70 reported that they were investigating or trialling new or innovative approaches to at least one of the following (table D.15):

- 
- monitoring and evaluation (45 per cent of programs)
  - contracting/other arrangements for service delivery (36 per cent)
  - governance/accountability (35 per cent)
  - risk management (29 per cent)
  - other (13 per cent).

#### *Future demand for NFP service providers*

Almost all survey participants anticipated an increase in demand for NFPs to deliver government services in their area of operation. This appears to be driven by the success of past and current engagement experiences and a desire to expand the range and/or quantity of services provided.

In some cases, respondents noted that constraints on government funding are anticipated to curtail the desired growth in demand for NFPs services by governments. Additionally, some respondents expressed a concern that limits on the capacity of NFPs to deliver additional services could hinder expansion.

Only a handful of respondents indicated that their engagement with NFPs in service delivery may decrease in the future. This perspective was due to specific circumstances, such as limited funding, some small NFPs ceasing to exist and the entrance of for-profit organisations.

## **D.4 The data**

Quantitative data collected in the Commission's survey of government agencies and programs are presented in the following section.

The data should be considered indicative only for a number of reasons. First, the data was collected for a non-random sample of government agencies and programs. Survey participants were deliberately selected because they have substantial involvement with the NFP sector in delivering human services. Government agencies selected the programs for inclusion on the basis of representing the range of approaches they take to external delivery of services that involve NFPs. Second, the responses received in the survey are specific to the experiences of the programs surveyed and the experiences of the individual filling out the questionnaire. Different perspectives may be reported by individuals who have been involved with service delivery for a short period of time compared to those with a longer duration of experience.

## Agency level responses (survey part 1)

**Table D.2 Type of services and share delivered by external agencies<sup>a</sup>**

Number of agencies engaging external organisations for service delivery, by share of expenditure going to external agencies

Service type	Share of expenditure going to external organisations				
	>75%	50–74%	25–49%	10–24%	<10%
	Number of responses	Number of responses	Number of responses	Number of responses	Number of responses
Family & community	9	4	2	2	3
Indigenous	8	2	0	2	6
CALD	5	0	0	0	5
Disability	3	4	2	0	1
Housing	3	0	0	2	2
Employment	2	0	0	0	2
Health	0	1	0	1	6
Emergency	0	0	0	1	3
Other	4	1	1	0	5
Share of external services delivered by NFPs <sup>b</sup>	17	7	3	1	7

<sup>a</sup> Agencies could identify more than one service type, all agencies provided an answer to this question. <sup>b</sup> An additional two respondents indicated that the data could not specify a response to this question, this question was answered by 86 per cent of survey respondents.

Source: Productivity Commission survey, question 1.1.

**Table D.3 Motivation for government agency engagement with NFPs**  
Reasons for engagement, sample of 43 agencies <sup>a</sup>

	<i>Major motivation</i>	<i>Moderate motivation</i>	<i>Minor motivation</i>	<i>Irrelevant</i>
	Number of responses	Number of responses	Number of responses	Number of responses
NFPs provide flexibility in service delivery	16	18	3	2
NFPs are better able to package this service with other services for the target client group	16	17	3	2
NFPs give value for money	15	15	5	2
NFPs are representative of the clients the program is targeting	14	17	4	4
NFPs have an advocacy role in advancing the interests of clients	10	17	8	4
NFPs are well placed to pilot a program	10	17	6	5
To ensure continuity of NFP service provision	7	17	8	6
NFPs are the only model for delivering the service	7	11	9	7
NFPs are a driver of innovation	6	14	12	4
To expand the number of providers	2	8	9	17

<sup>a</sup> Agencies could select more than one response, 91 per cent of agencies surveyed provided an answer for at least one part of this question.

Source: Productivity Commission survey, question 1.4.

**Table D.4 Nature of the agency engagement with NFPs**

Characteristics of engagement <sup>a</sup>

	<i>Used for major programs</i>	<i>Used for minor programs</i>	<i>Rarely used</i>	<i>Never used</i>
<b>Approach to market <sup>b</sup></b>				
Open competition	9	3	1	0
Invited competition	1	1	2	0
Invited non-competitive	2	5	2	0
Invited sole provider	2	2	6	2
Open competition and invited competition	5	0	2	1
Invited competition and invited non-competitive	0	0	2	0
All of the above	7	1	0	1
Other combinations	8	6	2	3
<b>Field <sup>c</sup></b>				
Sole provider	5	4	3	3
Multiple provider	16	6	0	0
Both	13	3	0	0
<b>Funding mechanism <sup>b</sup></b>				
Fee for service	3	4	4	0
Block based funding	3	0	0	0
Grants	13	6	6	0
Client vouchers	0	1	1	12
Grants and fee for service	0	2	2	0
Grants and block based funding	6	2	2	0
Fee for service and block based funding	2	1	1	0
Grants, fee for service and block based funding	7	0	0	0
All of the above	1	0	0	1
<b>Funding basis <sup>b</sup></b>				
Full cost recovery	3	4	4	2
Contribution to cost	17	3	1	0
Both	8	2	0	1
<b>Duration of funding <sup>d</sup></b>				
Fixed period	15	7	0	1
Recurrent	8	2	4	2
Both	12	4	0	0

<sup>a</sup> Respondents could select more than one response. <sup>b</sup> All survey participants selected an answer for this question. <sup>c</sup> 93 per cent of survey participants selected an answer for this question. <sup>d</sup> 95 per cent of survey participants selected an answer for this question.

Source: Productivity Commission survey, question 1.5.

**Table D.5 Model of engagement**

	Yes	No	Non-response
	Number	Number	Number
Is service delivery arrangement a partnership?	35	5	3

Source: Productivity Commission survey, question 1.6.

**Table D.6 Important characteristics of the partnership model**

Characteristics identified as being most important to the efficient and effective delivery of services <sup>a</sup>

	Very important	Somewhat important	Not important
	Number of responses	Number of responses	Number of responses
Potential for feedback on program	29	8	1
Support capacity building	25	13	0
Contribution to design	23	11	4
Legitimacy with stakeholders	23	11	1
Sharing risk	13	18	4

<sup>a</sup> All survey respondents were invited to identify characteristics important to the partnership model, including those who indicated that their arrangements did not constitute a partnership.

Source: Productivity Commission survey, question 1.7.

## Program level responses (survey part 2)

**Table D.7 Program expenditure in 2007–08 <sup>a</sup>**

	< \$1m	\$1–10m	\$10–100m	\$100m–1b	>\$1b
Number of programs	19	30	30	7	5

<sup>a</sup> From the sample of 109 programs, 91 provided information on total program expenditure in the previous financial year.

Source: Productivity Commission survey, question 2.1.

**Table D.8 Share of program delivered by NFPs**

Proportion of services delivered by NFPs, by value <sup>a</sup>

	>75%	50–74%	25–49%	10–24%	<10%
Number of programs	55	12	11	5	6

<sup>a</sup> From the sample of 109 programs, 89 were able to estimate the proportion of services delivered by NFPs.

Source: Productivity Commission survey, question 2.2a.

**Table D.9 Nature of program engagement with NFPs**

Characteristics of program engagement <sup>a</sup>

	<i>Number of 'yes' responses</i>	<i>Proportion of respondents</i>
	Number of programs	Per cent
<b>Approach to market <sup>b</sup></b>		
Open competition	16	17
Invited competition	11	12
Invited non-competitive	9	9
Invited sole provider	8	8
Open competition and invited competition	10	11
Invited competition and invited non-competitive	10	11
All of the above	14	15
Other combinations	17	18
<b>Field <sup>c</sup></b>		
Sole provider	12	15
Multiple provider	45	56
Both	24	30
<b>Funding mechanism <sup>b</sup></b>		
Fee for service	6	7
Block based funding	10	12
Grants	33	39
Client vouchers	0	0
Grants and fee for service	4	5
Grants and block based funding	15	18
Fee for service and block based funding	3	4
Grants, fee for service and block based funding	12	14
All of the above	1	1
<b>Funding basis <sup>b</sup></b>		
Full cost recovery	21	25
Contribution to cost	47	56
Both	16	19
<b>Duration of funding <sup>d</sup></b>		
Fixed period	39	45
Recurrent	20	23
Both	28	32

<sup>a</sup> Respondents could provide more than one response. <sup>b</sup> 84 per cent of survey participants selected at least one option. <sup>c</sup> 81 per cent of survey participants selected an answer for this question. <sup>d</sup> 85 per cent of survey participants selected an answer for this question. <sup>e</sup> 83 per cent of survey participants selected an answer for this question.

Source: Productivity Commission survey, question 2.3.

**Table D.10 Models of engagement**

Program responses to selected questions, sample of 109 programs

	Yes	No	Non-response
	Number of programs	Number of programs	Number of programs
Is a lead agency arrangement used?	21	70	18
Is the service delivery arrangement a partnership?	73	20	16

Source: Productivity Commission survey, question 2.2b.

**Table D.11 Governance features**

Features of governance frameworks used by programs in sample <sup>a</sup>

	Major feature	Minor feature	Not used
	Number of responses	Number of responses	Number of responses
Financial reporting	89	7	0
Performance reporting	85	7	3
Governance prerequisites	66	17	9
Financial audit	65	24	5
Performance audit	46	33	13
Accreditation requirements	32	21	37
Department/agency representative on board	14	11	69

<sup>a</sup> Respondents could provide more than one response, 91 per cent of survey respondents selected at least one option.

Source: Productivity Commission survey question 2.5a.

**Table D.12 Use of NFP providers**

Program responses to selected questions

	Yes	No	Non-response / not applicable
Are NFPs the only non-government providers?	63	33	13
Are arrangements the same for NFPs and other providers? <sup>a</sup>	28	5	71
Do the same evaluation mechanisms for evaluation apply to NFPs as to other providers? <sup>b</sup>	61	7	41

<sup>a</sup>This question should only have been answered by those programs that responded 'no' to the above question; however five respondents who selected 'yes' for that question also selected 'yes' for this question, these have been removed. <sup>b</sup>This question was only relevant for those who answered 'yes' to the first question, though some non-respondents to the first question selected answers for this question.

Source: Productivity Commission survey, question 2.5b, 2.5c, 2.7b.

**Table D.13 Mechanisms used to evaluate performance of non-government service providers<sup>a</sup>**

	<i>Major feature</i>	<i>Minor feature</i>	<i>Not used</i>
	Number of responses	Number of responses	Number of responses
<b>Monitoring</b>			
Independent	9	38	35
In-house	86	8	1
<b>Evaluation</b>			
Independent	28	42	16
in-house	59	28	4
<b>Access to client views</b>			
Use of client interviews	20	40	28
Use of client satisfaction survey	27	39	20
Other	11	3	1

<sup>a</sup> Respondents could provide more than one response, 87–88 per cent of survey respondents selected an answer for each of the three questions asked.

Source: Productivity Commission survey, question 2.7a.

**Table D.14 Gaps in NFPs' capacity**

Perceived gap between program requirements and NFPs' capacity <sup>a</sup>

	<i>Major gap</i>	<i>Minor gap</i>	<i>No gap</i>
	Number of responses	Number of responses	Number of responses
Attracting new entrants into field	30	30	25
Ability to co-fund	25	35	25
Board capacity	21	43	25
Ability of NFPs to evolve to meet changing department/ agency requirements	18	57	17
Financial management systems	17	51	23
Ability of NFPs to evolve to meet changing client needs	15	62	13
Appropriateness of venue/office	8	44	38
Lack of essential equipment	4	58	30

<sup>a</sup> 91 per cent of survey respondents selected an answer for at least one of these questions.

Source: Productivity Commission survey, question 2.8a.

**Table D.15 Innovation in relationships**

Number of programs trialling new approaches in specified area <sup>a</sup>

	<i>Number of programs</i>
Monitoring and evaluation	49
Contracting	39
Governance/accountability	38
Risk management	32
Other	14

<sup>a</sup> 70 programs (64 per cent of respondents) selected at least one response.

Source: Productivity Commission survey, question 2.9c.

**Table D.16 Program risk management, party best placed to manage risk**

Number of program responses <sup>a</sup>

<i>Party best placed to manage risk</i>	<i>Risk to client</i>		<i>Risk to NFPs</i>		<i>Risk to department/ agency</i>
	Poor service quality	Discontinuity of service	Financial viability	Reputational risk	
Client	4	1	1	0	0
NFP	34	18	45	39	2
Department/ agency	13	46	8	6	41
Client and NFP	1	1	0	0	0
NFP and agency	27	13	25	34	8
Client, NFP and agency	4	2	0	0	1
<b>Total</b>	<b>83</b>	<b>81</b>	<b>79</b>	<b>79</b>	<b>52</b>

<sup>a</sup> Respondents could select more than one option, response rates varied across risk types, 87 programs (80 per cent of respondents) selected at least one response to one part of this question.

Source: Productivity Commission survey, question 2.6a.

## **D.5 Commission survey of local government support for not-for-profit organisations**

In addition to the Commission's survey of government agencies and programs, a question on local government engagement with NFPs was included in another Commission survey that was part of the benchmarking study on food safety regulation.

Local governments were asked about the support they provide to NFPs in their local area. Results are presented in table D.18.

The most common forms of support were providing venues at less than commercial cost and providing grants or subsidies not exceeding \$5000 each for specific activities. Following the pattern of higher levels of government, local governments tend to focus their support on specific activities rather than providing general financial support for NFPs.

The survey results suggest that most local governments have not embraced using NFPs for delivery of services under their areas of responsibility. This may be of interest from a sector development perspective, as many local services have potential to be provided by social enterprises.

Only a relatively small share of local councils were providing secondments to a substantial number of NFPs. This model of support is increasingly being used by corporates as part of their social citizenship, and is another area where there may be scope for expanding the engagement to achieve local community objectives.

**Table D.17 Local government survey**

Sample of 109 councils in six states

	<i>None</i>	<i>A few</i>	<i>Substantial</i>	
	% responses	% responses	% responses	Number of NFPs responding
Provide venues at less than commercial cost	28	41	31	75
Provide grants or subsidies exceeding \$5000 each for specific activities	46	42	12	76
Provide grants or subsidies not exceeding \$5000 each for specific activities	36	36	28	75
Provide general financial support exceeding \$5000 a year per NFP	61	31	7	67
Provide general financial support not exceeding \$5000 a year per NFP	44	40	16	70
Provide staff support to NFPs for their applications to other government support programs	45	39	15	71
Task staff to undertake work exceeding a total of 12 days a year at an NFP	72	19	9	68
Contract NFPs to deliver services in the region	64	34	2	64
Other types of engagement with NFPs	49	29	22	49

Source: Productivity Commission benchmarking survey, June-October 2009.

## D.6 The survey questionnaire

A copy of the survey questionnaire is attached.

### PART 1: GENERAL QUESTIONS

*Government funded services can be defined as those where the Government has assumed some or all of the responsibility for their provision. They include those services historically provided by government, and outsourced; those traditionally provided by not for profit organisations (NFPs); and those new areas of service delivery where NFPs may be the only feasible provider, at least in the short term.*

*Part 1 of this survey aims to provide a broad picture of the nature of the department or agency's service delivery, and engagement with NFPs in the delivery of those services.*

#### Nature of service delivery

**1. Which of these services does your department or agency fund? Of these, which ones are delivered by external organisations? What is the share of service expenditure going to external organisations? (tick if appropriate)**

Services	Funded by your department /agency	Delivered by external organisations	Percentage of service expenditure going to external organisations
Family & community services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Housing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Disability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Employment services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Emergency services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Indigenous services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
CALD services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+
Other services funded by your department/agency which are delivered by external organisations (please specify): .....			<input type="checkbox"/> <10 <input type="checkbox"/> 10-24 <input type="checkbox"/> 25-49 <input type="checkbox"/> 50-74 <input type="checkbox"/> 75+

2. Considering the whole of your department/agency, what percentage of funded services (by value) delivered by external organisations is delivered by NFPs? (Order of magnitude is fine)

- <10%     
  10-24%     
  25-49%     
  50-74%     
  75%+  
 data do not distinguish NFPs from for profit providers.

3. There is debate about the reason why Government funding of NFPs for service delivery has expanded — one view is that Government is increasingly taking at least some responsibility for the provision of services which NFPs have traditionally provided. Do you agree/disagree? Why?

.....

.....

.....

.....

4. In general, what is the motivation for your department/agency engaging with NFPs? (please tick the appropriate boxes)

Motivation	Major	Moderate	Minor	Not relevant
To expand the number of providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs are better able to package this service with other services for the target client group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs give value for money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs are the only model for delivering the service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs are representative of the clients the program is targeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs provide flexibility in service delivery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs are a driver of innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To ensure continuity of NFP service provision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs have an advocacy role in advancing the interests of clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NFPs are well placed to pilot a program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other important (please specify): .....

5. A key aspect of government engagement with NFPs is through the funding arrangement itself. There are a whole range of approaches to engaging NFPs in service delivery. Could you provide information on the extent to which your department uses the following arrangements for services delivered by NFPs? (Please tick the appropriate boxes)

Type of arrangement	Used for major programs	Used for minor programs	Rarely used	Never used
<b>Approach to market</b>				
– open competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– invited competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– invited non-competitive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– invited sole provider	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Field</b>				
– sole provider	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– multiple providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Funding mechanism</b>				
– fee for service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– block based funding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– grants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– client vouchers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Funding basis</b>				
– full cost recovery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– contribution to cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Duration of funding</b>				
– fixed period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– recurrent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify): .....				

6. Does your department/agency consider its engagement with NFPs in service delivery as a partnership?	Yes <input type="checkbox"/>
	No <input type="checkbox"/>

In your view, what are the features of the arrangements that characterise a partnership?

.....

.....

7. From the perspective of your department/agency, what characteristics of the partnership model are the most important to the efficient and effective delivery of the services?

	Very important	Somewhat important	Not important
Support capacity building in NFP (eg training)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sharing of risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legitimacy for stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contribution to the design of the program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential for feedback on the program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other important (please specify): .....

.....

8. What difficulties, if any, has your department/agency experienced in establishing efficient and effective partnerships with NFPs?

.....

.....

.....

9. Is your department/agency pursuing any innovative approaches to service delivery arrangements involving NFPs, including partnerships in the delivery of government funded services? (please specify)

.....

.....

.....

## PART 2: PROGRAM SPECIFIC QUESTIONS

Please choose up to four programs that engage NFPs for service delivery. Ideally, the programs should be chosen to reflect the range of arrangements your department uses and, to the extent possible, be chosen to include examples of different funding and contracting arrangements.

The following questions relate to each of these four major programs. A separate copy of Part 2 should be completed for each program.

### Profile of programs using NFPs for delivery

<b>1. Background</b>	
Name of program: .....	Year commenced: .....
Expenditure in 2007-08: \$.....	Type of service: .....
Description of clients needs, locations(eg. rural, urban) and number (clients, frequency of services) : ..... ..... .....	

<b>2. Nature of NFPs involved in delivery</b>	
a) What share of the program (by value) is delivered by NFPs? <input type="checkbox"/> <10% <input type="checkbox"/> 10-24% <input type="checkbox"/> 25-49% <input type="checkbox"/> 50-74% <input type="checkbox"/> 75%+ <input type="checkbox"/> Not known	
b) i) How many NFPs are engaged in the delivery of the program?	<input type="text"/>
ii) Is a lead agency arrangement used?	Yes <input type="checkbox"/> No <input type="checkbox"/>
If yes, how many lead agencies are used?	<input type="text"/>
c) i) Which NFPs have a major share in program delivery? (please name) .....	
ii) Roughly what share do these NFPs provide?	<input type="text"/> %

### 3. *Service delivery arrangements*

Considering the following arrangements for service delivery, which one best describes the approach used for engaging NFPs in the delivery of this program? *(please tick the appropriate box)*

*Type of arrangement*

#### **Approach to market**

- |                           |                              |                             |
|---------------------------|------------------------------|-----------------------------|
| – open competition        | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – invited competition     | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – invited non-competitive | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – invited sole provider   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

#### **Field**

- |                         |                              |                             |
|-------------------------|------------------------------|-----------------------------|
| – sole invited provider | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – multiple providers    | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

#### **Funding mechanism**

- |                          |                              |                             |
|--------------------------|------------------------------|-----------------------------|
| – fee for service        | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – block based funding    | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – grants                 | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – client vouchers        | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – other (please specify) | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

#### **Funding basis**

- |                        |                              |                             |
|------------------------|------------------------------|-----------------------------|
| – contribution to cost | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – full cost recovery   | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

#### **Duration of funding**

- |                |                              |                             |
|----------------|------------------------------|-----------------------------|
| – fixed period | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| – recurrent    | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

Other *(please specify)*: .....

.....

#### 4. Administrative costs

a) On average, over the period of the program's funding cycle, what share (to the nearest 10%) of your agency's **administrative expenditure** in running the program is associated with the following activities:

Program design:	<input type="text"/> %	Establishing arrangements (tendering, contracting)	<input type="text"/> %
Managing the program:	<input type="text"/> %	Monitoring and evaluation:	<input type="text"/> %
Other::	<input type="text"/> %		

b) What share is your agency's administrative cost of total program cost?  %

c) Would you describe the service delivery arrangements for this program as a partnership? (You may wish to consider such aspects as funding of capacity, sharing of risks, and contribution to program design and evaluation.)

Yes

No

Why? .....

.....

#### 5. Governance

a) What are the key features of the governance/accountability framework for this program? (Please tick the appropriate boxes)

	Not used	Minor feature	Major feature
Governance prerequisites	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Department/agency representative on board	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accreditation requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (please specify): .....

b) Are NFPs the only non-government service providers in this program? (If yes, go to question d)).

Yes

No

c) Do the same arrangements apply to NFPs as to other providers? If not, what is different about the arrangements? ..... .....	Yes <input type="checkbox"/> No <input type="checkbox"/>
d) What difficulties, if any, has your department/agency experienced in the administration of the governance provisions? ..... .....	

**6. Risk management**

a) What are the main risks that need to be managed, who is in the best position to manage these risks (please tick the appropriate boxes), and why? (Please describe)

Type of risk	Which party is best placed to manage the risk?	Reason
<b>Risk to client</b>		
– poor service quality	Client <input type="checkbox"/>	.....
	NFP <input type="checkbox"/>	.....
– discontinuity of service	department/agency <input type="checkbox"/>	.....
	Client <input type="checkbox"/>	.....
	NFP <input type="checkbox"/>	.....
	department/agency <input type="checkbox"/>	.....
<b>Risk to NFP</b>		
– financial viability	Client <input type="checkbox"/>	.....
	NFP <input type="checkbox"/>	.....
– reputational risk	department/agency <input type="checkbox"/>	.....
	Client <input type="checkbox"/>	.....
	NFP <input type="checkbox"/>	.....
	department/agency <input type="checkbox"/>	.....
<b>Risk to department/agency</b>		
Other (please specify)	Client <input type="checkbox"/>	.....
.....	NFP <input type="checkbox"/>	.....
	department/agency <input type="checkbox"/>	.....

b) In this program area, do you see the use of NFPs to deliver services involving more, less or the same level of risk as for profit providers? (You may wish to consider types of risk, sharing of risk, and whether you require NFPs to bear the same level of risk as for profit providers in this area.)  
 .....  
 .....  
 .....

c) What difficulties, if any, has your department/agency experienced in the management of risk in relation to NFPs? (You may wish to consider whether the way you manage risk in relation to different providers is broadly in proportion to the level of risk and the associated consequences.)

.....  
 .....  
 .....

## 7. Evaluation

a) Please indicate the key mechanisms by which you evaluate the performance of providers in this service area. (Please tick the appropriate boxes)

*Mechanism for monitoring and evaluation*

	Not used	Minor feature	Major feature
<b>Monitoring</b>			
– independent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– in-house	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Evaluation</b>			
– independent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– in-house	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Access to client views</b>			
– use of client interviews	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– use of client satisfaction surveys	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify) .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b) Do the same mechanisms apply to NFPs as to other providers? If no, why?  
 .....  
 Yes   
 No

c) What difficulties, if any, has your department/agency experienced in the evaluation of NFPs' performance in this area?

.....  
 .....

**8. Capacity of NFPs**

a) What gaps, if any, has your department/agency identified in relation to the capacity of NFPs to deliver services and to otherwise meet the requirements of the program? (Please tick the appropriate boxes)

Gap	No gap	Minor gap	Major gap
Attracting new entrants into field	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability of NFP to evolve to meet changing client needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability of NFP to evolve to meet changing departmental/agency requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of essential equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appropriateness of venue/office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability to co-fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Board capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial management systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other important gap(s) (please specify) .....

b) Does your department/agency support training or other approaches to building the service delivery capability of NFPs? Yes   
No

If yes, please describe: .....

**9. Looking forward**

a) How do you see NFP involvement evolving in future in the delivery of services of this nature? (You may wish to consider whether this is an expanding area, and whether the department/agency is looking for NFPs to do more in this area?)  
.....  
.....

b) What difficulties, if any, has your department/agency experienced to increasing the involvement of NFPs in service delivery in this area? (You may wish to consider whether these relate to a need for change by NFPs themselves, changes in the relationship between NFPs and government, change by government, or whether they are related to wider environmental influences?)  
.....  
.....

c) Are you investigating or trialling any new or innovative approaches to :	
<input type="checkbox"/> contracting/other arrangements for service delivery	<input type="checkbox"/> monitoring and evaluation
<input type="checkbox"/> governance/accountability	<input type="checkbox"/> other aspects of service provision ( <i>please specify</i> ).....
<input type="checkbox"/> risk management	
Please describe the approach(s) and why the changes are being made? ..... .....	

**10. Concluding**

a) Do you have any additional comments to make on any aspect of the contribution of the Not for Profit Sector? ..... .....
b) Do you have any comments to make about this survey questionnaire? ..... .....

*Thankyou for your time and effort in completing this survey.*

*The findings of this survey will form an important input to the Productivity Commission's Study into the Contribution of the Not for Profit Sector.*