

Submission
No 56

Outsourcing Community Service Delivery

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Date Received: 3/05/2012

NSW Government Submission to
the Legislative Assembly
Committee on Community Services
Inquiry into Outsourcing Service
Delivery

April 2012

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Executive Summary

Non government organisations (NGOs) are driven by 'community purpose.' They exist to support and champion the needs of people who are disadvantaged, vulnerable and socially isolated. They exist for people whom access to the usual networks of family, mainstream services, and community supports have failed or are inadequate.

NGOs are mainly inclusive, participatory and quality-focussed, and have the capacity to create social capital in a way that government and the private sector cannot. There are thousands of NGOs across NSW, each with their own philosophy, specialisation, and collaborations. The rich diversity of the sector provides an economic and social benefit for NSW.

The NSW Government is committed to improving services. The Government cannot achieve this crucial goal for the most vulnerable people in society without the support of strong, innovative and flexible NGOs.

Non government organisations:

- have the trust and confidence of the community, and are primarily responsible to them and the people they directly support;
- can access resources from many sources, such as funding, in-kind resources, donations, volunteer time;
- provide direct and indirect value back to those making contributions;
- have greater flexibility in how they provide services;
- can take greater risks than government in how services are delivered;
- have a local profile and presence with a deep understanding of local communities;
- can connect people with their local communities, and expand their social networks, and
- can influence the views of the community and government about the people that they support, which can lead to greater inclusion, acceptance and knowledge/skill transfer.

The NSW Government identifies five key challenges facing the family and community services NGO sector today:

- Developing **capacity**, especially in governance, leadership, management and investment, to manage sustainable growth;
- Creating a **partnership approach** where government and NGOs work together and use their strengths to deliver real outcomes;
- Building a **sustainable workforce**, undergoing substantial growth and change;
- Shifting to **innovative funding approaches** which encourage improved services and better outcomes for vulnerable people;
- Balancing **regulation for strengthened outcome-focussed accountability**, without imposing unnecessary costs and administrative burdens which detract from delivering services for people

Current Reforms

The NSW Government and the NGO sector are embarking on a number of reforms in family and community services which will transform many NGOs, and strengthen their role in service delivery across NSW. The key current reforms facing the NGO sector are:

- transition to an individualised funding system for disability services which delivers person centred services and places the control of funding with the person;
- transfer of out-of-home care (OOHC) placements to NGOs and focusing responsibility for support of children to families and communities; building capacity of registered community housing providers; and
- transitioning Home and Community Care responsibility for support of older people to the Commonwealth (Aboriginal people over 50 and non-Aboriginal people over 65).

Importance of genuine partnership

Improvements to services can only flow from these current reforms if the Government works in genuine partnership with the NGO sector. This means the Government has to invest not only in funding for services, but also in its own capacity building and supports to enable the NGO sector to operate efficiently. NGOs also need to improve their capabilities, be well positioned to attract resources from business, and to have effective, robust governance and management. Regulation is needed to boost accountability and transparency for outcomes, to ensure the efficient and effective use of public funds, and that the rights, health and wellbeing of some of the most vulnerable members of the NSW community are protected.

Balancing regulation while improving services

The NSW Government is committed to increasing accountability and transparency. Better regulation needs to hold NGOs – and Government, to account clearly for outcomes to demonstrate the success or performance of taxpayer-funded programs. Often a focus on inputs distracts from the wider objective to improve services, which should be the focus of regulation. This regulation needs to be proportionate to risk, and be mindful of the nature of a partnership, the complexity of a service, the risk of placing the services away from - or in the hands of - government, and the governance and management capability of individual NGOs. Individual NGO size, skill, specialisation and location, makes a single regulatory framework unviable.

It is also important that the regulatory balance allows for the benefits accrued by the NGO sector to be clearly reported and directed to delivering improved services, rather than compliance unrelated to helping or serving clients.

The NSW Government is implementing a range of new monitoring and regulatory models that seek to strike that balance, all while maintaining the necessary probity accountability and quality assurance mechanisms.

For this risk-based partnership approach to work, each NGO needs to have adequate governance and internal controls and practices to ensure the appropriate management of public resources. This means an emphasis on addressing the skill constraints within the sector, particularly governance capability with the strong reliance on volunteer boards of management. Addressing workforce limitations is another priority, mainly driven by the low rates of pay offered in the sector.

Developing capacity

Tailored capacity building initiatives that reflect the unique requirements of sub-sectors are underway. This includes strategies such as the Disability Industry Development Fund; and Strategy; Keep them Safe Workforce and NGO Capacity Building Plan. There are common themes across these strategies with approaches to development matching the specific risks and business models within each sub-sector.

There is an emphasis in the local relationship on co-design and co-production to ensure that the needs of local communities are able to be adequately met with a sustainable supply of services. This is particularly true for population groups that are overrepresented

in family and community services such as Aboriginal people, but also in rural and regional NSW where service delivery systems can be fragmented and improvements in co-ordination between government and NGO services are required. Integrated planning, focusing on building community capacity and linking mainstream, NGO and specialist government services, is being developed across the Department of Family and Community Services (FACS).

There is a broader commitment across the NSW Government to build the capacity of the NGO sector, which is shared by funders as well as government agencies. Improvements to vocational training, industrial relations support, and investment and regional development activities that promote the role of NGOs as substantial employers and a major industry across NSW are critical to the viability of the sector into the future.

Creating innovative funding approaches to deliver improved services

Funding models are also being developed that take account of the whole of the business of NGOs, not just the component that is funded by the NSW Government. This includes supporting NSW to take up opportunities for extending the value of that funding through private and social investment approaches, philanthropy and volunteering strategies.

Building a sustainable workforce

The recent decision of Fair Work Australia to award an Equal Remuneration Order which will address the low pay rates in the sector will be significant in contributing to the increased professionalisation of the sector. The NSW Government will work with the sector and key unions to ensure that workforce reform delivers the necessary skill improvements in NSW, including leveraging the recently agreed COAG skills reform package, to ensure that the needs of the social and community services workforce are addressed.

1 Introduction and context

This document sets out the NSW Government approach to commissioning services from the non-government sector in housing, disability, home and community care and out-of-home care.

The aim of this submission is to provide the Legislative Assembly Committee on Community Services with advice on the challenges and opportunities associated with partnering with the NGO sector, the Government's methods of commissioning and contracting, and regulation and risk management with the sector, in the context of its Inquiry into NGO outsourcing. This response also describes the investment in activities to expand sector capacity, enhance capability and deliver long term sustainability.

References to 'the sector' or 'NGOs' throughout this document predominantly mean 'the NSW family and community services NGO sector' and covers disability, community care, community services, child protection and community housing providers.

This submission focuses on the NSW Government's commissioning and engagement of services through the Department of Family and Community Services (FACS). Arrangements in other portfolios, including Health, have also been included where relevant in this submission.

Service Demand

The delivery of current and future family and community services capability is impacted by demand growth, workforce constraints, and fiscal pressures.

Demand for services comes from a diverse client base that includes some of the most vulnerable and disadvantaged people in NSW. Demand continues to outpace the supply of services in this area.

The demand for different types of services is also changing as individuals expect services that are more closely aligned to their individual needs and are unconstrained by programs and activities prescribed by government. Expectations of the timeliness and standard of care provided are also continuing to rise.

NSW Government expenditure by FACS is budgeted to be around \$5.3 billion in 2011/12. In recent years these services have been a fast growth expenditure area, with average growth exceeding 8 per cent per annum.

Opportunities and Challenges for the NGO Sector

NGOs are established to support people that are disadvantaged, marginalised or vulnerable, and to represent their issues. NGOs use surplus revenue to add to the achievement of their goals, rather than for profit. They are closely connected with local communities and are able to attract resources through donations, private sector investment, and volunteering activities. For-profit companies and individuals support NGOs as a conduit for their social contribution.

Unencumbered by the layers of administration that can constrain government, NGOs are often able to establish new services in new locations more expeditiously. The independence, philosophy and motivation of NGOs mean that people who are vulnerable are more likely to seek their assistance and benefit from the social capital that an NGO can offer.

Service System Reforms

The family and community service system in NSW has grown significantly in recent years. The service system has operated in a highly programmatic way for some decades, with a focus on the funding relationship between government and NGOs, and on service delivery inputs and outputs without a clear focus on improving client outcomes. Service reforms

outlined in this submission will deliver a shift in that focus to the recipients of services, the social outcomes that services deliver, and their quality.

Recent public sector reforms, particularly the establishment of FACS, present opportunities to improve service integration and reduce barriers to access for vulnerable people.

The NSW Government is planning major reforms in family and community services over the next few years to improve the service system, create efficiencies, and achieve better results for people. The reforms in services will be mainly targeted at the NGO sector, such as disability services and out-of-home care (OOHC), including the transfer of assets from government.

In each of these reform areas it will be necessary to:

- grow the capacity of providers to deliver the quantum of new services required, and to establish flexible business models that respond more effectively to client need;
- maximize social capital and leverage community input through NGOs to add value to government funding and connect service users with communities more effectively;
- enable the delivery of better quality services with a strong person centred ethos, and sound management and assurance;
- maintain a diverse mix of providers (specialisation, scale, location) to ensure sustainable supply of services to a diverse group of people with a range of needs in all parts of NSW;
- enable an industrial relations environment that delivers a highly skilled workforce;
- establish new approaches to funding that build in flexibility and portability and maintain the core viability of NGOs;
- support engagement and partnership with non-traditional NGO groups to further extend the market; and
- continue efforts to build a true partnership between government and the NGO sector and to shift the contract management and funding culture to reflect that relationship.

Some initiatives are already well underway, including substantial investment in *Stronger Together*, with a recent focus on the shift to individualised funding, and the transfer of OOHC services which began in March 2012.

In summary:

- Delivering sustainable and quality family and community services cannot be done by governments alone.
- The NGO sector is well placed to deliver social outcomes for vulnerable people and shares responsibility with the community for supporting people who need assistance.
- The diversity of the sector and its capacity to leverage social capital should be supported.

2 The policy environment

In January 2010, the Productivity Commission (PC) handed down a report on the *Contribution of the Not For Profit Sector*. The report considered factors impacting on the efficiency and productivity of the sector across all jurisdictions nationally.

The report demonstrates the scale of NGO operations across Australia, and although the family and community services component of the sector accounts for only around 20 per cent of the NGO market (the market also includes sectors such as health, environment, culture, recreation, religion and so on), the observations made and recommendations for reforms on the part of all levels of government, are relevant in the NSW policy environment.

National reforms planned to improve the regulation and productivity of the NGO sector are based on recommendations made by the PC.

NSW funding reform in family and community services has also been substantively informed by the recommendations made in the PC's report.

2.1 NSW Government Support for NGOs

FACS is the largest funder of NGO services in NSW. In 2010/11, FACS provided funding of around \$2.04 billion to approximately 2000 NGOs to provide services and to manage assets across a range of areas. In 2011/12, the budgeted expenditure for the Department is \$5.3 billion, of which NGO funding will represent about 45 per cent.

The Department of Education and Communities and the Ministry of Health also fund a range of NGOs and have separate commissioning and contracting methodologies to those used across FACS agencies.

Although the Ministry of Health commissions services from the NGO sector, these are principally delivered within a clinical governance framework, and do not, as such, fall directly within the Committee's Terms of Reference.

The Ministry of Health provides funding to NGOs through a number of funding streams, including the NGO Program and ad hoc grants. The Ministry of Health's Policy Branches and the Local Health Districts administer and manage funding. NGOs are funded to provide a range of health services including health prevention and promotion, early intervention, emergency services, community clinical health, community support, community accommodation and management, advocacy, administration and research and development services. Funding programs include the Home and Community Care (HACC) Program, the Housing and Accommodation Support Initiative (HASI), Aboriginal health, drug and alcohol, mental health, AIDS, oral health, women's health and chronic illness support.

The *NSW Health NGO Review Recommendations Report* was released in July 2010. The key recommendations were to:

1. Reduce Red Tape and Improve NSW Health NGO Program Administration.
2. Strengthen Accountabilities and Improve the Performance Monitoring and Service Evaluation of the NSW Health NGO Program.
3. Strengthen Partnerships and Revise Governance Arrangements of the NSW Health NGO Program.
4. Implement the NGO Review Recommendations.

These directions are consistent with the policy directions for the NGO sector under FACS.

Other support

The NSW Government also shares a role in building the capacity of the NGO sector. Improvements to vocational training, industrial relations support, investment and regional development activities that promote the role of NGOs as substantial employers and a major industry across NSW are critical to the viability of the sector into the future.

Current initiatives being implemented by the NSW Government which provide support to NGOs in the context of industry and workforce development include:

- *Taxation concessions and other related support*

The Government has a number of concessions and exemptions in place for which NGOs in the community services sector may be eligible. Eligibility will depend on the type and purpose of the NGO, as well as the eligibility criteria for the specific concession or exemption. Some examples of the concessions and exemptions for which NGOs may be eligible include:

Transfer Duty - An exemption from transfer duty is usually granted where the property is to be used for approved charitable purposes, such as the relief and prevention of poverty.

Payroll Tax - NGOs may be eligible for payroll tax exemptions if their objectives are solely or dominantly for charitable, benevolent, philanthropic or patriotic purposes, and wages paid to their workers is for work done directly or exclusively for that NGO's objectives.

Land Tax - NGOs may be exempt from land tax if they are solely for charitable or educational purposes, and not for pecuniary profit of members. An exemption may also be granted for societies registered under the *Friendly Societies (NSW) Code* and for non-profit societies, clubs and associations.

Crown Land rent concessions - Rebates from market rent may be granted in certain circumstances for eligible tenure holders such as charitable or non-profit community services, and sporting or recreational organisations.

Exempt properties water rate concession - A partial discount on Sydney Water Corporation and Hunter Water Corporation charges is provided to owners of properties used by non-profitable community services and amenities.

- *Vocational training*

TAFE NSW is an established provider of nationally recognised qualifications in Disability Work, Social Housing and Home and Community Care. It is well placed to work with the NGO sector to identify opportunities for skill development and to ensure compliance with relevant regulations for the sector.

- *Red tape reduction and regulatory streamlining*

The NSW Government, through the Department of Premier and Cabinet's Better Regulation Office, is mindful of the need for appropriate models to monitor and regulate service providers. Government agencies use the *Guide to Better Regulation* when developing and reviewing regulation.

- *Support to, and regulation of, associations incorporated through the Office of Fair Trading*

In NSW, NGOs can be incorporated under the Commonwealth *Corporations Act 2001* or *Aboriginal and Torres Strait Islander Act 2001*, or under the NSW *Associations Incorporation Act 2009* or *Co-operatives Act 1992*. Each form of incorporation has its own accountability and reporting requirements.

On 13 April 2012, the NSW Government released a new handbook to help NGOs to meet their regulatory obligations. The guide was developed by NCOSS, with funding provided by the Office of Fair Trading. Two thousand copies of "Incorporation: An explanation of the *Associations Incorporation Act 2009*" are being printed in English, with additional CD copies in English, Chinese and Arabic produced on demand.

2.2 Commonwealth support for NGOs

At the Commonwealth level, tax concessions available to eligible NGOs include income tax exemptions, a higher GST registration threshold, the ability to make supplies GST-free in certain circumstances, GST input credits, capped exemptions from (or rebates of) fringe benefits tax, and the ability to receive tax deductible gifts.

In its 2011/12 Budget, the Commonwealth Government announced a range of measures regarding the taxation and regulation of the NGO sector. This includes better targeting of NGO tax concessions so that income tax concessions will only apply to the profits generated by unrelated commercial activities of NGOs if the profits are directed to the NGO's altruistic purpose.

2.3 Commonwealth and National reforms

When considering appropriate models for monitoring and regulating service providers, it is important to take into account all relevant reform activity, including Commonwealth (for entities operating at the Commonwealth level) and national (ie through the Council of Australian Governments) not-for-profit (NFP) reforms. The not-for-profit sector refers to non government organisations that are not run to earn a profit.

- a) **Commonwealth Not-for-Profit Reforms** - In its 2011/12 Budget, the Commonwealth announced a number of Commonwealth-level NFP regulatory and taxation reforms, including:
- establishing the Australian Charities and Not-for-profit Commission (ACNC) by 1 October 2012 — initially the ACNC will regulate charities, but overtime the Commonwealth envisages it will become the national regulator for all NFPs operating at the Commonwealth level (a 'one stop shop' for regulation and reporting);
 - introducing a statutory definition of charity for all Commonwealth laws effective from 1 July 2013; and
 - better targeting of Commonwealth NGO concessions from 1 July 2012.
- b) **National Not for Profit Reforms**- the Commonwealth intends to broaden the scope of its reforms, and intends to negotiate a national NFP reform agenda with states and territories through COAG. Over the next 12-24 months, jurisdictions will consider options for national reform in four key areas, namely:
- advancement of nationally consistent recognition of charities as determined by the ACNC;
 - harmonisation of legal, governance and reporting regulation for the NFP sector;
 - harmonisation of tax treatment for non-charitable activities of charities; and
 - advancement of a nationally consistent approach to fundraising regulation.

NSW will engage in this process and consider harmonising arrangements where they provide appropriate levels of accountability, do not impose overly burdensome regulatory requirements, and generate genuine benefits for NGOs operating in NSW.

- c) National Reforms specific to family and community service delivery and impacting on the NGO sector include:
- **National Health and Hospitals Reform** and the National Partnership (NP) Agreement on Transitioning Responsibilities for Aged Care and Disability Services which set changes to funding, policy, management and delivery of community care services and the national aged care systems, placing responsibility for support to older Australians with the Commonwealth;
 - **National Disability Strategy**, which provides a ten year national plan for improving life for Australians with disability, their families and carers;
 - **National Disability Insurance Scheme** which proposes a life time care and support scheme for people with a disability;
 - **National Affordable Housing Agreement** to improve housing affordability and homelessness outcomes; and
 - the establishment of a **National Regulatory System** for community housing providers.

2.4 NSW family and community services policy context

FACS is the lead agency for NSW policy reforms impacting specifically on the commissioning and contracting of the NGO sector.

FACS works with individuals and families with the aim that many people have the skills and supports to help themselves, rather than being dependent on Government provided or funded services for an extended period. The statutory responsibilities of the Department continue to be an important element of FACS work.

To achieve this aim, FACS provides community, social, disability and housing related services directly and via NGOs, including:

- support to people with a disability, including through early therapy intervention, transition to work, short-term respite, home care and specialist accommodation;
- enhancing child safety and wellbeing;
- providing accommodation and housing assistance to eligible households;
- promoting positive outcomes for women by developing policy and working with other agencies and NGOs;
- promoting positive ageing and a culture that supports older people;
- supporting community development, capacity building and NGO industry development; and
- providing direct and indirect crisis support.

FACS is the lead agency for three NSW 2021 Plan goals:

- Better protect the most vulnerable members of our community and break the cycle of disadvantage.
- Increase opportunities for people with disabilities to gain access to support that meet their individual needs and realises their potential.
- Increase opportunities for seniors in NSW to fully participate in community life.

The main agencies involved in NGO support are:

- Ageing, Disability and Home Care (ADHC) - delivering community support and specialist care services for people with a disability and their families and carers.
- Community Services (CS) - keeping children safe and providing support to vulnerable families, and to children in out of home care.
- Housing NSW - helping to house people in need.

The main reforms driving the proportionate shift to NGO based service delivery are:

Stronger Together 2

Stronger Together is a new direction for disability services in NSW. It is a 10-year plan to provide greater assistance and long-term practical solutions for people with a disability and their families. It involves major reforms and service expansions.

Stronger Together recognises that there needed to be a major injection of extra capacity in the disability service system. At the same time, extra capacity was not sufficient; the disability service system needed to be reformed.

The first five years of *Stronger Together* (which commenced in 2006/07) set out plans to increase capacity by 40 per cent, involving an investment of \$1.3 billion (in 2006/07 dollar terms).

Stronger Together established five reform directions:

- making access fairer and more transparent;
- helping people to remain in their own home;
- linking services to need;
- expanding options for people living in specialist support services; and
- creating a sustainable support system.

Key focuses were in three areas:

- **strengthening families:** enabling children with a disability to grow up in a family and participate in the community;
- **count me in... promoting community inclusion:** supporting adults with a disability to live in and be part of the community; and
- **improving the system's capacity and accountability:** fairer and clearer ways to access services, greater accountability and more opportunities for innovation.

Under the second five years of *Stronger Together 2* (which commenced in 2011/12), the NSW Government is investing an additional \$2 billion (in 2010/11 dollars) in disability services across five years, with a focus on increasing capacity in the non-government sector.

Focuses of the second five years are:

- **person-centred approaches:** reforming the disability sector to enable people with a disability to be key determiners in how support resources are used;
- **a lifespan approach:** increasing certainty by building long-term pathways through the service system;
- **Large Residential Centre closures:** closing all NGO centres by 2017/18; and
- **a service system with the right capacity:** ensuring that the quality resources are available in ways that meet people's needs efficiently and at the right time.

Stronger Together has so far delivered an unprecedented expansion of funding for disability services, as well as considerable momentum for change in the types of services on offer, and the way they are provided. This has had major implications for the provider sector.

Stronger Together is supporting and building the sector to deliver these reforms through:

- improving governance and management capacity, and reducing the red tape burdens on NGOs;
- creating an Industry Development Fund to support NGOs in their capacity building and workforce development;
- releasing a five year industry strategy in June 2010, outlining strategies to ensure that we have what we need in terms of capacity, structure, regulation and quality improvement;
- Training and development initiatives of \$5 million a year (\$25 million over five years);
- Working with the sector on the development of Social Impact Bonds to improve outcomes in early intervention (\$5 million over five years); and
- supporting a range of research, development and data initiatives at a cost of \$57.5 million over five years.

Out-of-Home Care

In 2008, the Special Commission of Inquiry into Child Protection Services in NSW (the Wood Inquiry) recommended expanding the role of NGOs in child protection and out-of-home care (OOHC). This was based on the premise that responsibility for supporting and rearing children should be with families and communities, rather than government.

The Government has made a commitment to transferring the majority of OOHC places to the NGO sector over a ten-year period from 2012. The purpose of the transition of services is to achieve the best possible outcomes for children, young people and their families by delivering a quality sustainable NGO OOHC service system for NSW. The approach will connect children with local communities and build on the strengths of the NGO sector in early intervention and family restoration.

The ultimate aim of the reform is to reduce the number of children entering the statutory care system by increasing restorative practices that support families and retain children within their family and kin network.

Some NGOs already have the capacity to deliver more services, while others will need time and assistance to assume a greater role.

Community Housing

The NSW Government has sought to promote growth in the NSW community housing sector for the last 15 years through a range of initiatives including industry development and affordable housing programs.

Under the National Affordable Housing Agreement, NSW is working with the sector and Government to expand the supply of community housing to comprise up to 35 per cent of social housing stock by July 2014.

The Aboriginal Housing Office developed the *Build and Grow Strategy* in conjunction with the Aboriginal community housing sector. Launched in February 2010, the Strategy provides a series of reforms to ensure that the sector becomes sustainable, financially independent and is able to better meet the needs of tenants and communities. Core components of the Strategy include: the Provider Assessment and Registration System,

which provides specific performance requirements for providers; Head leasing, through which providers lease properties to the AHO for subleasing by another provider; and, a new approach to rent setting.

Community Care Transition

The transition of Home and Community Care (HACC) services for older people to the Commonwealth is currently underway, with the Commonwealth expected to assume full operational responsibility for these services from 1 July 2012 in accordance with the National Partnership (NP) Agreement on Transitioning Responsibilities for Aged Care and Disability Services.

Under the NP, the changes to roles and responsibilities for aged care and disability services are to be budget neutral to the NSW and Commonwealth Governments. The NP also contains provisions which substantially address NSW's key pre-conditions for the transfer of responsibility to the Commonwealth, including ongoing access for people aged over 65 to Commonwealth aged care services; no disruption to clients and smooth transition for providers; and, coordinated implementation across aged care and disability systems.

The Commonwealth has committed to not substantially altering existing service delivery arrangements before 1 July 2015. This applies to both NGO and government providers.

All NGO and local government HACC providers have been advised of the funding arrangements that are proposed to be in place from 1 July 2012.

Direct negotiations have commenced with the Commonwealth concerning future contracting arrangements for NSW Government providers.

As the largest provider of HACC services (52,000 clients; 4,000 staff) in NSW, the Home Care Service is significantly affected by the national health reforms. The NSW Government is determined to ensure that future arrangements result in the best possible outcomes for clients, communities and Home Care staff.

Keep Them Safe

Keep Them Safe (KTS) was developed in response to the 2008 Special Commission of Inquiry into Child Protection Services in NSW. It is a five-year action plan aimed at radically changing the way that government and the community deal with child safety and wellbeing to build a stronger, more effective child protection system.

The objectives of KTS are to:

- create an integrated system that supports vulnerable children, young people and their families by introducing new reporting and referral arrangements that provide an alternative way for children and families to access support services; and
- in cases where statutory intervention is necessary, improve the response of Government and the courts.

From 2008/09, \$750 million was committed over five years for the implementation of KTS. Expanding the role of NGOs in providing services to children and families is a critical component of KTS. Over 40 per cent of the KTS budget package was designed to go to NGOs to support an expanded role in delivering early intervention and prevention services, as well as OOH. C.

KTS radically reshapes the way family and community services are delivered, sharing responsibility across government agencies and NGOs. It includes commitments to develop the capacity of the NGO sector to take an expanded role in service delivery, as well as strategies to change the culture and develop skills and capacity across the public and NGO sector workforces. Key initiatives are to provide opportunities for joint training, networking and skill development, providing resources to NGOs to help with their own

workforce planning, and investing in developing management and governance capabilities.

In summary:

- A range of NSW government agencies have responsibility for supporting the NGO sector, and further opportunities to assist the sector should be explored.
- There are commitments through National agreements that the NSW Government will continue to engage with. The NSW Government will consider harmonising arrangements where benefits to the NSW NGO sector are clear.
- The NSW Government already has in place initiatives that rely on delivery by the NGO sector to be successful. These should continue to be implemented as designed.

3 Sector Characteristics

3.1 Family and community service NGOs

The main consideration in making a proportionately greater investment in growing NGO services over those provided directly by the NSW Government or, alternatively, the private sector, are based in the benefits that the sector brings, their responsiveness, and comparative success in delivering effective social outcomes for vulnerable people.

The NGO sector is diverse and its organisations possess unique characteristics. In general, NGOs:

- are trusted by the community, and are primarily responsible to the people they directly support;
- access resources from many sources, such as funding, in-kind resources, donations and volunteer time;
- provide direct and indirect value back to those making contributions;
- often have greater flexibility in how they provide services and may be able to adopt innovative approaches more quickly;
- have a local profile and depth of knowledge about local community;
- can connect the people they support with local communities, and expand their social networks; and
- can influence the views of the community and government about the needs and interests of the people they support, which can lead to greater inclusion, acceptance and knowledge/skill transfer, and influence governments' economic, cultural and social policies.

As NGOs do not generally operate in the broader competitive market, the sector is able to leverage resources from community, the private sector and from government. NGOs can also enable financial and asset leveraging. Community support and willingness to contribute to service delivery is another means of creating social capital. Survey results suggest that NGOs are more trusted providers than government or corporate organisations¹.

Diversity

The NGO sector is diverse in its scale of operations, the range of services provided, geographical spread, organisational philosophy and the sophistication of business models. Organisations range from being small, locally based, volunteer managed and highly dependent on NSW Government funding, to large multi-dimensional providers with sophisticated management structures, and professional boards with access to alternative sources of funding, including investments.

Revenue

State and federal governments remain the main sources of revenue for the sector. While most organisations rely on a variety of revenue sources, in the family and community services sector, state and federal governments remain the main sources of support. For example, almost 70 per cent of NGOs that received FACS funding receive more than 50 per cent of their total funding from FACS. Over 40 per cent received 75 per cent or more of their total funding from FACS².

¹ PwC 2011 *Potential contribution of the NGO sector to deliver more and better services to people with a disability*, discussion paper, PricewaterhouseCoopers, Sydney

² *ibid.*

NGOs funded by the NSW Government receive funding from a range of sources, including:

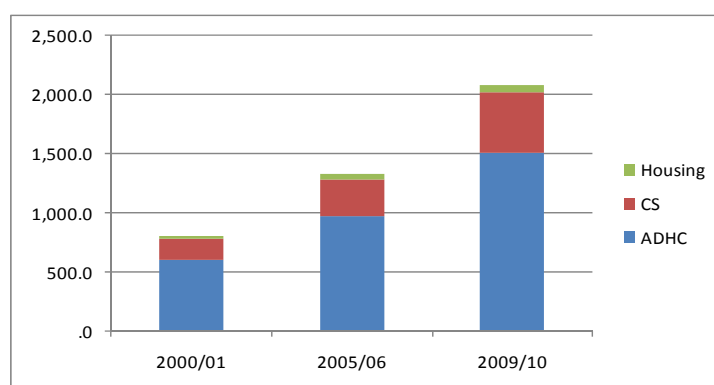
- other state or commonwealth agencies;
- revenue from business operations (i.e. business income from the various business enterprises they have established, for example packaging operations);
- investment revenue, including interest on investments, dividends, rental income on investment properties;
- debt financing in the case of community housing providers;
- client user fees;
- fundraising revenue, including bequests, structured fundraising programs and unstructured and possibly unsolicited donations;
- in-kind contributions, i.e. contributions of goods and services in-kind in addition to volunteer labour; and
- indirect government funding in the form of tax concessions.

3.2 FACS assistance to the NGO sector

The majority of NSW Government funding to the family and community services NGO sector is provided through FACS. In 2011/12, around 46 per cent of the FACS budget is applied to funding NGOs.

The NGO sector has proved a reliable base through which family and community services can be delivered. The NGO provider base is regularly tested for its quality and efficiency through repeated tenders, monitoring and assurance mechanisms. The data in this section is derived from a funding data across ADHC, CS and Housing NSW through a project in 2011 to map changes in funding arrangements over the past decade.

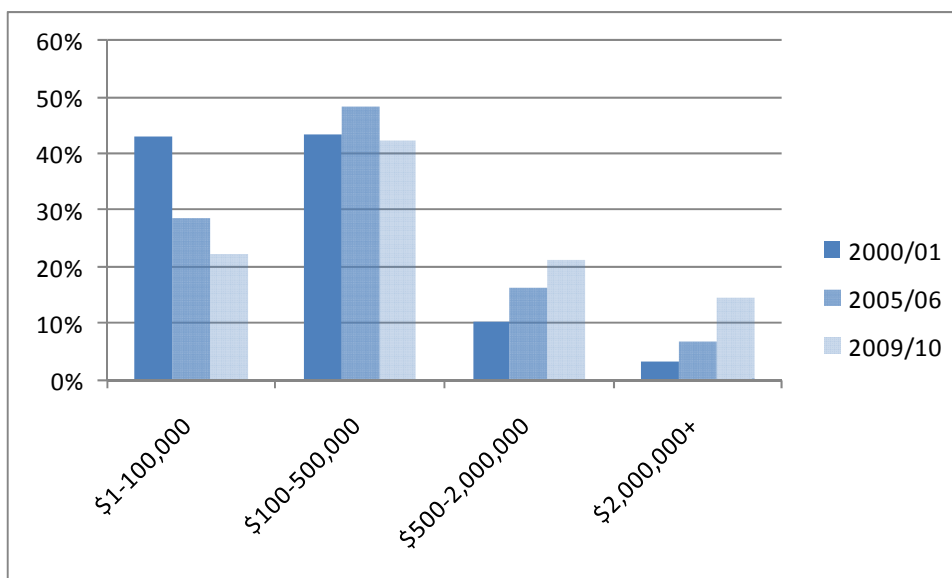
Figure 1: Total funding to service providers by agency 2000/01 to 2009/10 (\$m)



Within FACS, growth in NGO funding has been highest in ADHC mainly through the injection of growth under *Stronger Together*, but also through sustained annual growth under the Home and Community Care program.

The following graph shows that while the proportion of service providers receiving less than \$100,000 in funding has reduced, the number of providers receiving more than \$500,000 in funding has more than doubled over this period.

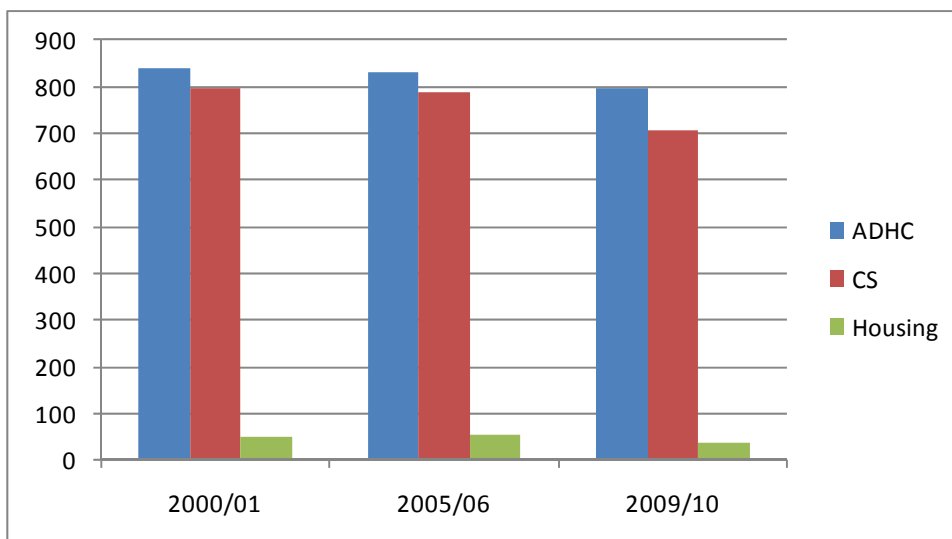
Figure 2: Distribution of providers by amount of recurrent funding received from all agencies (2000-01, 2005-06 and 2009/10)



Note that this graph only considers recurrent funding provided by FACS agencies

Total funding received by NGOs has increased. However, there has been a slight reduction in the numbers of funded NGOs over the same period. The change is mainly in administration changes within NGOs (ABN changes, changes of name and so on). However, there have been some mergers and closures during this period. Overall the market is relatively stable.

Figure 3: Unique service providers by agency (receiving recurrent funding) 2000/01 to 2009/10



The relative size of funding provided to NGOs varies between sub-sectors. As illustrated below, in 2009/10 over 80 per cent of Community Services providers received less than \$500,000 in recurrent funding, whereas ADHC funds 40 per cent of providers over \$500,000, and 20 per cent of providers over \$2 million compared to around 5 per cent in Community Services.

Figure 4: Distribution of providers by size of funding - by agency 2009/10

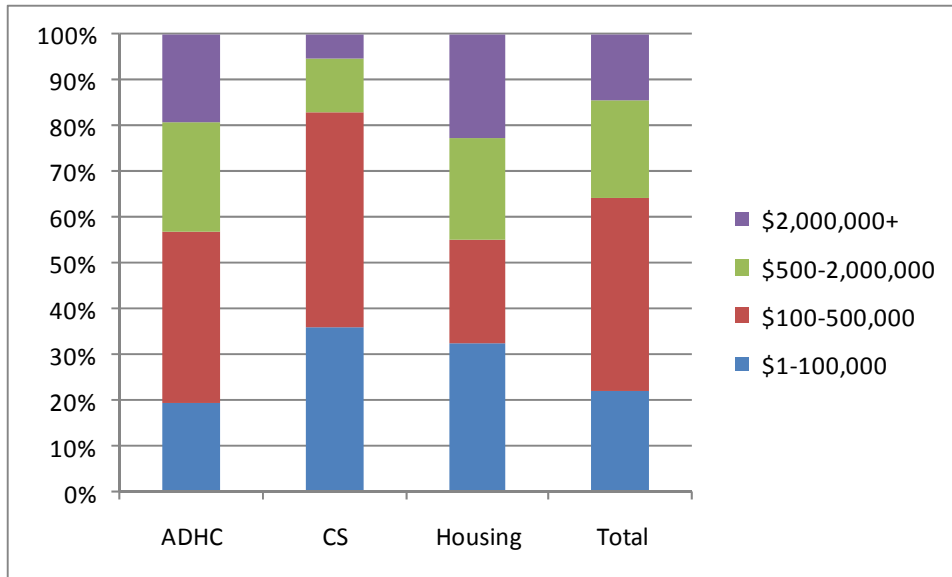


Figure 5 below shows the extent to which service providers receive recurrent funding from the three funding divisions in FACS. In 2009/10, four service providers received recurrent funding from all three FACS divisions, but 192 service providers received funding from ADHC and Community Services with total funding of \$511 million. Housing figures relate only to the 38 community housing providers that manage leasehold properties.

Figure 5: Proportion of providers for each FACS agency that also received recurrent funding from another FACS agency in 2009/10

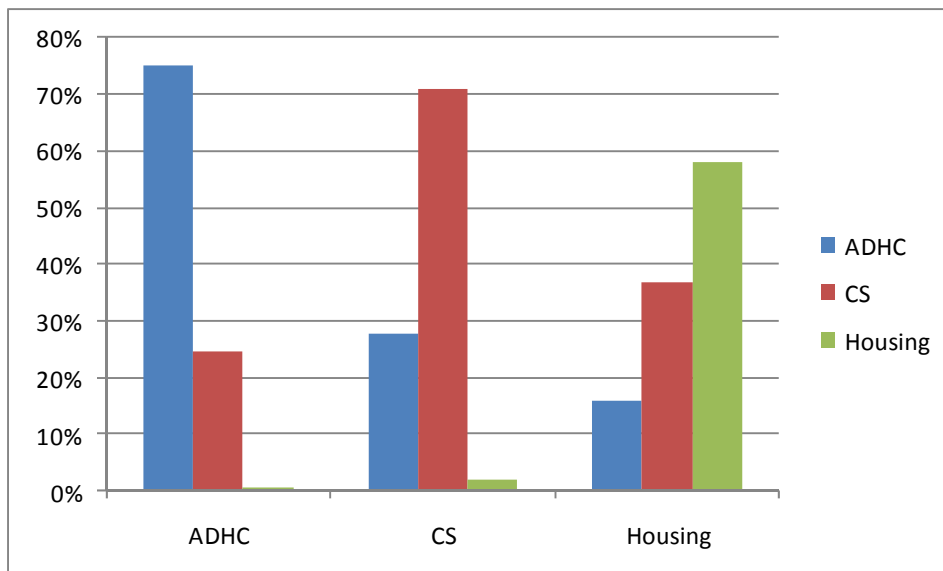
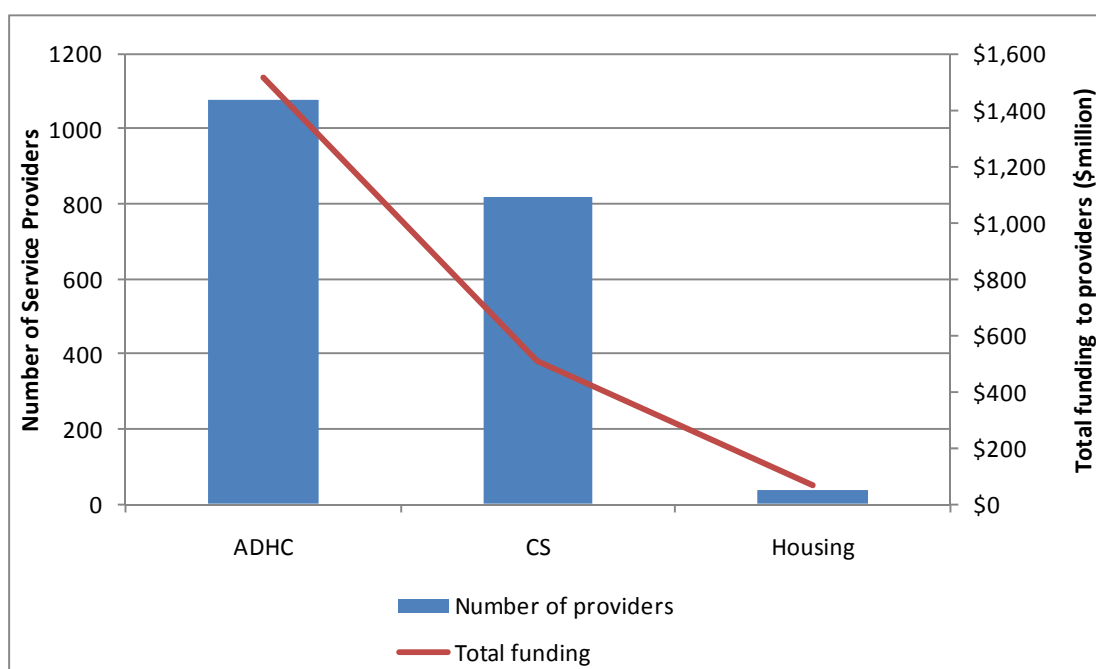


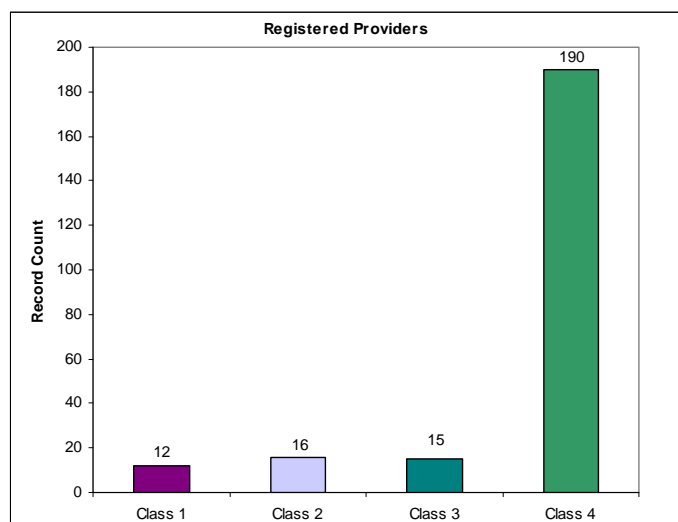
Figure 6 Number of service providers and total funding by FACS agency



A regulatory process exists within FACS with a registrar monitoring the performance of Community Housing Providers (CHPs) and is described in section 7.

Under the NSW community housing regulatory system, providers are placed into four classes depending on the scope and scale of their community housing delivery. Class one and two providers manage a larger property portfolio focussed on community housing development projects. The following provides an overview of the number of registered providers and property portfolios.

Figure 7 Number of registered community housing providers as at March 2012



In summary, funding growth to the NGO sector has grown markedly over recent years, in line with the government’s policy objectives. Some consolidation of the supplier base has occurred, which, combined with overall funding growth, has led to a general increase in funding to individual providers. The size of funding to individual providers also varies depending on the specific sub-sector in which they are engaged, other forms of

assistance they may receive (e.g. properties), as well as the extent to which they receive funding through programs under multiple FACS agencies.

In summary:

- The Department of Family and Community Services is the largest funder of the NGO sector in NSW with around 47 per cent its budget directed to funding NGO delivered services.
- Funding growth to the NGO sector has grown substantially over the past decade. The market is generally stable and has been well tested.
- There is limited overlap in funding arrangements within NSW, and where there are multi-funder arrangements, improved streamlining needs to occur.
- Although referred to as a 'sector', there is great diversity in the types of NGOs funded by FACS and various engagement approaches are appropriate.

4 Market supply

4.1 Demand for services

NGO delivered services are accessed by a diverse and growing client base which includes some of the most vulnerable and disadvantaged people in NSW. This client base is increasing and continues to outpace the supply of services.

There are particular challenges in establishing and maintaining viable service supply to address demand in rural and remote areas and also for population groups that are particularly overrepresented in family and community services – mainly Aboriginal people and communities.

The NSW Government is aware that, in addition to growth in services to keep pace with demand, there is a need to transform the way that services are delivered and to expand the types of services that are available. People who are vulnerable need the same choice and control over their lives and the services they receive as everyone else in the NSW community, so:

- services and infrastructure need to be designed around the needs and circumstances of individuals and families, instead of a 'one size fits all' approach;
- the service system – government and NGO service delivery - needs to be more flexible and responsive to people's changing needs as they move through stages in their lives and changes in their circumstances, positive or negative;
- there is a need for innovation and continuous improvement in the way that vulnerable people are supported in the community;³ and
- services need to be positioned to intervene early to reduce reliance on specialist services, or to divert people altogether by strengthening community based and other informal support networks.

Both *Stronger Together* and *Keep Them Safe* have a particular focus on early intervention to reduce reliance on specialist services and escalation of need in the long term.

4.2 Provider market

Family and community services are delivered via a multi-provider market arrangement where a range of government services are delivered alongside funded and unfunded NGO services.

The NSW Government has a joint role as funder and provider.

There has been a faster rate of growth in services delivered by the NGO sector in recent years and an increasing specialisation by FACS in delivering services to complex needs clients and in managing intake and access points.

FACS retains capacity to directly deliver services and infrastructure as a complement to services provided by the NGO sector. There is a community expectation that the Government will provide services where there is a significant risk to the individual or the community should a service fail, or where other providers are unable to deliver services at the scale necessary without incurring significant additional costs.

Government also delivers services in areas where community capacity through local NGO providers is limited, or there are no NGOs operating in some communities. In these circumstances FACS-delivered services also provide infrastructure across NSW which cannot be readily replicated by other providers. For example, the Home Care Service of

³ ADHC 2010, *Inquiry into services provided or funded by the Department of Ageing, Disability and Home Care*, Submission no. 31, ADHC, Sydney.

NSW is the only provider of high level complex Home and Community Care services and Aboriginal Home Care is the only state-wide provider of services specifically for Aboriginal people. The Home Care Service has locations across NSW, particularly in rural and regional areas, and in some instances will be the only provider in a community.

Generally, the services provided by Government are those where the risk of providing those services through an alternative provider is considered to be too great, other providers are non-existent, or are not willing to deliver the service.

FACS has a role through its agencies in funding, regulation, direct planning, intake and access.

In a person centred system, it will be necessary to progress to a clearer funder/provider separation to ensure that the service delivery accountabilities on the NGO sector through the current funding regime are applied equally to government delivered services.

4.3 Rural and remote areas

A priority for the NSW Government is to establish concrete mechanisms that empower local communities to make decisions and directly influence what happens in those communities. Making decisions at the local level, reflecting the real needs of a community, is fundamental to ensure that vulnerable people are supported, risks around their safety and wellbeing are minimised, and social isolation is reduced. These issues can be exacerbated in rural and remote areas where services may be non-existent or not well-connected.

NGO service providers in rural and remote areas tend to be locally connected and often operate only in that community. There are exceptions to this approach where larger state-wide NGOs establish outreach operations in rural and remote communities.

The challenge for Government, and FACS and Ministry for Health in particular, will be to continue to support existing NGOs in rural and remote areas, as well as ensure that there is adequate capacity available for the transfer of additional services to the NGO sector so that service coverage remains. This is particularly important in regards to workforce, as attracting and retaining qualified staff in rural and remote areas is a significant challenge⁴.

One Place One Plan

In 2011, the Government introduced the *One Place One Plan* initiative which is aimed at delivering improved community outcomes through coordination and planning between FACS agencies, NGOs and other government agencies.

FACS will support the implementation and delivery of the 15 existing *One Place One Plans* with respect to their public commitments. The Plans have been developed locally, drawing upon local knowledge, expertise, linkages and partnerships with the communities, relevant government and NGO agencies. Each Plan addresses key priority areas for FACS, the sector and the community with some identified actions being lead by our community partners.

FACS agencies also have local planning arrangements in place around their specific target groups.

Disability and Community Care Sector Planning Framework

An example of local planning focussed on people with a disability is the ADHC *Sector Planning Framework*. This approach represents a shift in planning for disability and community care services by prioritising work with local communities to improve and build

⁴Social Policy Research Centre (SPRC) 2010, Profiling NGO community service organisations in New South Wales, Final Report, UNSW, Sydney.

support for people with a disability to access the services and supports they need and to increase their participation and contribution as part of that community.

The Framework aims to expand the provision of services to people with a disability to include universal services and other community services, including other government and NGO service providers. This approach is designed to particularly apply in rural and regional communities, where service integration is most problematic.

For example, in a rural community, a place based planning approach might identify that the Neighbourhood Centre is the key community service in the area and that this service is best placed to assist people with a disability, particularly in terms of increasing participation in the community. Local planning could then focus on strengthening partnerships with the Neighbourhood Centre and joining up other services to that Centre, such as the town hospital, and sport and recreation clubs.

4.4 Aboriginal and Torres Strait Islander specific services

In August 2011, the NSW Government announced the establishment of a Ministerial Taskforce on Aboriginal Affairs to develop a new Aboriginal Affairs Strategy in 2012. The new Strategy will include actions to improve:

1. service delivery and accountability in Aboriginal affairs across NSW, with particular consideration of the recommendations of the Auditor General's report on Two Ways Together, and other arising reports;
2. educational outcomes for Aboriginal people in NSW; and
3. employment outcomes for Aboriginal people in NSW.

Effective reform in these areas is central to addressing Aboriginal disadvantage as a whole.

Aboriginal people, particularly children and young people, are overrepresented in family and community services. Initiatives are underway within FACS to improve the supply of Aboriginal services, as well as improving access to other specialist services by Aboriginal people, including:

- **Aboriginal Out-of-Home Care industry development:** the NSW Government is investing \$750,000 over two years with the Aboriginal Child, Family and Community Care State Secretariat to research, scope and implement activities to develop the capacity and expand the number of Aboriginal specific NGOs across NSW. The objective is to ensure that there is an adequate supply of services so that Aboriginal children, young people and their families can be supported by their own people and in their own communities.
- **Aboriginal Jobs Together:** a partnership between the NSW and Australian Governments and the NGO sector to increase Aboriginal employment in the family and community service NGO sector and build the capacity of the sector to employ Aboriginal people. Under this initiative, National Disability Services (NDS) is seeking to build partnerships with up to 30 disability and community care organisations to provide traineeship and cadetship opportunities for 110 Aboriginal people across NSW. In the longer term, it is expected that the initiative will also improve the cultural competency of non-Aboriginal NGOs, improving access to services by Aboriginal people.

In summary:

- Government and the NGO sector are co-producers of services in the family and community services sector. Ongoing service delivery by government is necessary to ensure service delivery supply particularly in locations where alternative supply is limited.
- Local decision making, particularly in rural and remote areas, will allow for more focussed and transparent service delivery arrangements that can be tailored to the particular needs of the community.
- Better integration of services in rural and remote areas needs to be pursued to reduce duplication and improve social outcomes for these communities and the vulnerable people living in them.
- The NSW government, through the Ministerial Taskforce on Aboriginal Affairs, is considering ways to improve services for Aboriginal people and in Aboriginal communities to better address Aboriginal disadvantage and the overrepresentation of Aboriginal people in family and community service programs.

5 Capacity Building

Government has a responsibility to support NGOs not only by funding services, but also by investing in capacity building and supports. Such investment enables the NGO sector to:

- operate efficiently;
- be well positioned to attract resources from business;
- improve the services on offer, including their quality; and
- consider and respond to emerging public policy issues.

5.1 Current capacity building activities

NSW Government support to build the NGO sector's capacity is delivered through a number of channels, including \$17 million through the 'Industry Development Fund' (IDF). A further \$25 million is provided over five years under *Stronger Together 2*, to support further workforce and industry reform, as well as initiatives under *Keep Them Safe* and Community Housing. The government also supports capacity building by funding peaks to provide support to NGOs, and to inform emerging government policy on behalf of NGOs.

The following capacity building activities are in place across FACS agencies and target the requirements of the specific sub-sectors and their respective business models.

Disability Industry Development Plan

Through the IDF, the disability services sector has the opportunity to direct and shape the disability services system, so that it can be better prepared to meet the future needs of people with a disability, their families and carers, including by taking a person centred approach to service design and delivery.

National Disability Services (NDS) manages the IDF in partnership with ADHC. A strong partnership between the Government and NGO disability sector underpins all IDF activities. Since its establishment in 2009, eight projects have been allocated over \$12 million from the IDF, including:

- state-wide expansion of the successfully piloted Aboriginal Resources Pathways project, which develops local networks of Aboriginal communities and disability services and improves access to services for Aboriginal people;
- extension and expansion of the existing Disability Safe project to reduce Workers Compensation Premium costs for specialist disability providers;
- stage two of the Good Governance Program, including a conference focusing on good governance for NGO CEOs and board members, held in February 2012;
- leadership development for NGO board members and senior managers;
- change management initiatives to support organisations to understand and plan for the challenges of moving towards more person centred services; and
- access to substantial resources to establish quality assurance systems and third party verification of compliance with the NSW Disability Standards.

Stronger Together 2 (ST2) Workforce and Industry

Delivery of ST2 requires significant investment in building the size and skill of the sector's workforce to make the transition to an individualised funding environment. To achieve this

reform, \$25 million of ST2 funding is dedicated to Workforce and Industry Development strategies.

These strategies are in development for progressive roll out through to 2016. The strategies are shaped around the following objectives:

- *Maximising sector productivity*: a new program of red tape reduction activities to reduce the regulatory burden on NGOs and specific strategies to improve support to Aboriginal NGOs for this purpose.
- *Enhancing the workforce*: NSW-based supports for the sector to reform its workforce, including the development of training opportunities (which link to the industrial relations changes required by the move to the Modern Award and the social and community services equal remuneration order).
- *Supporting innovation and investment*: through the new Disability Innovation Awards, and the development of financial models and tools to assist NGOs in making the transition to individualised funding arrangements.
- *Sector design and community connections*: rollout of local planning initiatives led by regions linked to the sector planning framework and focused on local NGO capacity requirements.

NSW Community Housing Industry Development Framework

The NSW community housing sector has undergone a period of fast expansion, encouraged by housing policy and a funding environment that is highly supportive of growth and provider diversification. To ensure that community housing providers are well equipped to take on a more diversified role, and that the industry is supportive of growth of affordable housing by community housing providers, Housing NSW developed the Community Housing Industry Development Framework in mid 2010. The Framework outlines the priorities for industry development investment and activity between 2010/11-2012/13 and identifies the roles and responsibilities of different industry partners in delivering those priorities, including peak industry agencies and the Registrar of Community Housing.

In 2011, Housing NSW developed and rolled out a suite of industry development strategies that aim to deliver the Framework goals. The industry has responded well to change, in many cases demonstrating innovation and best practice, and is attracting talent to the sector. Providers have also reported that they are building governance and management capabilities to strategically plan, grow and manage risk.

Keep Them Safe Workforce Development and NGO Capacity Building Plan

The Government's KTS Workforce Development and Capacity Building Plan, developed in 2010/11, was created from targeted conversations with key NGO representative groups. Respect for the autonomy of the NGO sector is a core principle of the Plan. It also acknowledges the need for government agencies to change their approach to working with NGOs, and embrace a partnership approach in all dealings with the sector.

The Plan emphasises the need for targeted activities to support the specific needs of Aboriginal NGOs, particularly the development of more meaningful local partnerships; improving early intervention and prevention service delivery in regional and local Aboriginal communities; improving cultural proficiency for staff involved in supporting Aboriginal children, young people, their families, and communities; and particular strategies to improve Aboriginal employment.

Peaks funding

FACS funds many peak bodies in disability, ageing, child welfare, housing and homelessness whose primary role is to promote the rights, inclusion and empowerment of their key target groups. There are also a number whose role is to provide advice and support to NGOs.

In 2011/12, FACS funded around 35 peaks at over \$10 million. Most peaks have a client or population focus and their main role is to facilitate a voice for their members, advocating for them and representing their interests. They may also have a role in supporting groups of NGOs that specialise in supporting their specific client or population group.

Peaks can also have an industry focus. In the case of National Disability Services (NDS), its sole role is to support the sector to build capacity, to access information and supports to assist in business development, and meeting (funding and non-funding related) compliance obligations.

5.2 NGO Governance

The quality of NGO governance across the sector has been identified by the PC as a challenge to industry productivity and efficiency⁵. The capacity of NGO boards of management is an important issue and requires substantial investment on the part of the sector and the government to ensure that the correct capabilities are in place. There are, of course, many NGOs that have robust governance arrangements, and like any industry the issues are not universal. However, many NGOs have grown from small local organisations and, unlike the private sector, rely on volunteer board members generally drawn from the local community. Volunteers undertake this important role because of their commitment to social and community service and the people that family and community services support.

The growth planned for the NGO sector, coupled with the service delivery reform agenda in family and community services, will impact on the business model of just about every currently funded NGO. Boards of management will require the capabilities to direct the shifts required operationally and strategically to ensure the sustainability and viability of the organisations they lead.

There are initiatives underway to develop board skills, but new approaches, including strategies to recruit a new generation of board members, will be critical to the ability of the sector to develop. Current initiatives include the *Good Governance Program*, an initiative under the Industry Development Fund, aimed at improving the governance of NGOs. Some elements of the program include:

- developing the *It's Your Business* resource manual, which includes material on corporate governance, legal issues, strategic business planning, risk management, strategic human resources and financial management;
- holding regional Good Governance Forums covering governance, financial management, business planning and strategy, quality and performance management;
- providing access for NGO Boards to specialist governance experts under the Tailored and Targeted Program;
- providing funding for NGO Board members to attend directorship courses run by the Australian Institute of Company Directors; and

⁵ Productivity Commission Report on the contribution of the not for profit sector February 2010

- establishing a good governance website and developing the governance publication *Board Matters*.

5.3 NGO sector workforce

The NGO sector has experienced considerable growth in its workforce in recent years due to the expansion of the sector from growth provided through family and community services initiatives. Many providers have experienced rapid increases in scale, and have taken on new functions. In line with the expansion in provider functions, the workforce has almost doubled over the past five years and will continue to expand as growth in planned initiatives continues.

The NGO sector has had difficulty in attracting and retaining qualified staff. High levels of staff turnover impact on service quality, with retaining staff a critical factor in providing continuity of service⁶.

Some of the factors that have been identified as drivers for the workforce challenges have been lower wage levels, limited opportunities for training, limited career pathways, and limited capacity to market the sector to potential employees. Many NGOs face challenges from a lack of scale to efficiently provide training and development opportunities. Increased collaboration across the sector, as well as improving the quality of strategic workforce management, will be important to improving workforce quality, capability and retention in the NGO sector. This may include smaller NGOs working together with larger providers and/or with peak bodies to address workforce planning, training and development needs.

Workforce characteristics

There are over 30,000 people employed in the NGO sector across NSW delivering direct services. This figure does not include the staff employed by the sector that are involved in delivering back office support, or the many numbers of volunteers that give their time to work in the sector without pay.

The sector is the most female dominated industry in NSW.⁷ In 2006, 88.1 per cent of those recording a primary job in a caring occupation in a community service industry were female, compared to 46.1 per cent in the workforce overall.⁸

Community sector work is often defined as 'caring' or 'female' work. The Queensland Industrial Relations Commission, in its 2009 equal remuneration and work value decision, found that care work or care giving has been historically undervalued as an extension of women's work in the home. It found that caring was seen as innate or natural and therefore not as skilled or valued.

The sector has a large proportion of mature age workers. Almost 50 per cent of the NGO sector workforce was aged over 45 years in 2006.⁹

Workers in the community services sector are more likely to be employed on a part-time or casual basis.

The majority of employees work in small workplaces of fewer than 50 employees. This reflects the overall prevalence in the sector of small to medium organisations.

⁶ Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*

⁷ Australian Bureau of Statistics 2009, 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Nov 2009.

⁸ Meager, G, and Cortis, N. 2010, *The Social and Community Services Sector in NSW: Structure, Workforce and Pay Equity Issues*, Faculty of Education and Social Work, University of Sydney, based on Census of Population and Housing, 1996, 2001, 2006, custom tables.

⁹ Cortis, N., Hilferty, F., Chan, S. and Tannous, K. 2009, *Labour dynamics and the non-government community services workforce in NSW*, SPRC Report 8/09, report prepared for the Department of Premier and Cabinet and the Department of Community Services, University of New South Wales, May 2009

NSW Government assistance for workforce development

The NSW Government has undertaken a range of initiatives to assist the sector in addressing workforce challenges, including:

- funding a sector workforce training needs analysis aimed at identifying the priorities for workforce training and development in NSW;
- providing strategic guidance on workforce development and capacity building initiatives as part of the transition to new OOH arrangements;
- investing in *Aboriginal Jobs Together* to increase Aboriginal employment and retention in the disability sector;
- commissioning a \$12 million *Workforce Recruitment Strategy* to grow the labour pool available to disability and community care providers, including the Care Careers (see below) and ProjectABLE programs; and
- delivering information and education forums regarding industrial award changes.

Emerging Industrial Relations Factors

Two changes to community sector industrial arrangements will impact on the NGO workforce:

- the introduction of a Modern Award for the Social and Community Services (SACS) industry; and
- an Equal Remuneration Order (ERO) made by Fair Work Australia (FWA).

The introduction of the Social, Community, Home Care and Disability Services Industry Award 2010 (Modern Award) will result in changes to pay for many in the industry in a phased approach to July 2012. The new rates aim to standardise wages, replacing two separate rates of pay that have been in place since 2006. From 1 July 2012, a standard rate of pay across the Modern Award will come into effect, and affected employees will have their wages phased either up or down accordingly.

Fair Work Australia (FWA) handed down an Equal Remuneration Order (ERO) in May 2011 regarding employees in the social and community services (SACS) industry. Following submissions, FWA made a final decision in favour of the ERO, with the result that relevant award rates will increase by 19 per cent to 41 per cent between December 2012 and December 2020. The definitive impact of the decision has yet to be determined.

5.4 Public sector capability

The obligation for change in this reform environment is also on government.

The NSW public sector will be required to develop the necessary skills and competencies to support the NGO sector through these changes, to be competent at working in partnership with the sector and local communities.

As FACS moves more into a model where service provision and funding management are separated, skills in contract management, financial control, monitoring and regulation in a partnership context must be developed.

FACS has a network of officers in regions engaged in the planning and management of NGO funding arrangements. The responsibilities of these officers currently include the following:

- **Relationship Management**, including day to day NGO contract and performance management such as risk management and reviewing annual returns, acquittals

processes, contact with service providers and following up on issues, taking part in program reviews, revising funding agreement schedules, and liaising with providers and clients.

- **Feedback and Complaints** – following up with NGOs on complaints relating to performance including cooperating with the Ombudsman.
- **Regional Planning** - includes consultations, planning for the roll out of new services and service reconfiguration, and consultations with community groups.
- **Cross agency policy and planning work** and contributing to whole-of-government initiatives in the region, such as work with local government to provide input to local council social plans, other state government agency planning etc.
- **Purchasing and Contract Negotiation** - includes local funding decisions, tenders and allocations as well as negotiating with providers on service models, funding levels and outputs.

Developing the skills of these officers to build different types of relationships with NGOs, and to consider the requirements and responsibilities of government delivered services, will be key to the success of the reform agenda.

Attracting and development skilled policy makers to build the frameworks and tools to support this new approach is also critical.

In summary:

- The NSW government must continue, in partnership with the NGO sector, to develop the capacity of the sector in governance, leadership, management, performance and investment terms.
- Governance is a key area for development.
- The applicability of current initiatives for broader application across the sector should be explored.
- The workplace structures necessary to attract and retain skilled workers should be a priority, to ensure that growth funding is applied in an environment where the best results are possible.
- The public sector workforce needs to be developed to enable new approaches to partnership with the NGO sector to succeed.

6 Funding and compliance

FACS is strengthening the way it works with providers and the broader community to place a greater emphasis on partnership. Services, and associated funding agreements will be outcome and performance oriented with a focus on development and coordination of the service system.

Historically, NSW funding arrangements have focused on defining and measuring inputs and outputs. There are a range of activities underway within FACS under the auspices of the Government to make this shift. Examples include:

- work between CS and OOHC NGOs to develop funding arrangements that incentivize permanency arrangements for children in long term OOHC placements; and
- the development of a new funding agreement for disability services that sets the scene for the shift to individualized funding from 2014, and less focus on programs and high level service specifications to improve the flexible use of funding to respond to individual needs.

6.1 Funding Agreements

Ensuring value for money for the services that FACS funds is critical, as are the controls over the provision and ongoing management of that funding.

All funding provided by FACS is under formal Funding Agreements, which are legally binding and which set out the terms and conditions, including compliance requirements, under which funding is provided.

Funding Agreement terms and conditions are standard across most providers in each of the FACS agencies and most agreements are for a three year period.

The terms of all Funding Agreements require service providers to adhere to relevant FACS policies and guidelines. These include:

- minimum standards, licensing or code of conduct requirements;
- program and sub program guidelines and policies;
- program performance indicators;
- program data collection requirements;
- annual financial reporting, other regular reporting requirements, and
- use of capital funding, and management of any interest vested with Ministers.

Although terms and conditions are generally common, schedules to Agreements are tailored to each NGO and provide a high degree of specificity as to the services to be delivered, location, duration, target group, quality, quantum and availability/access arrangements.

Mainly Funding Agreements are offered for three years. However some may be on an annual basis. Variations to funding can occur within that period: when NGOs are successful in attracting funding for additional services, changes to the arrangements for existing services, or where time limited services cease.

Most NGOs have a longstanding funding arrangement with FACS through ADHC, CS or Housing NSW – most providers have a core set of funded services that have been in place for many years, in some cases decades. This 'base' funding is renewed on a three

yearly basis and is augmented with new or varied funding arrangements that occur during the period.

FACS does not pay NGOs unless an Agreement is in place, or in the case of variations, where changes have been endorsed by duly authorized representatives (as defined by the legislation pertaining to a NGOs legal status, e.g. Associations Incorporated Act).

If performance issues are identified during the period of the Funding Agreement provisions are in place to take remedial action with an NGO to resolve the performance issue. If the performance issues prove intractable FACS agencies will initiate proceedings in accordance with the 'non-compliance' clauses under the Agreement.

Sourcing and allocating growth

Most of the funding directed to the NGO sector has been in place for some time. The funding is progressively adjusted as new funding is applied through growth strategies, or the management of services changes.

The FACS Procurement Policy Framework outlines how FACS manages the allocation of funding to service providers of family and community services. Under the Framework, FACS develops funding policies specific to the needs of each subsector. Sourcing and growth allocation decisions set out in this policy are in line with current NSW Government guidelines for purchasing services. It is important for the Committee to note that sourcing arrangements that FACS uses for allocating funding are not 'procurement' in the traditional sense. Funding is not provided on a fee for service basis and the expectation through Funding Agreements is that a co-contribution will be made to the delivery of services by the NGO (through fees and other sources). In the main, FACS specifies the service type and specifications that will be funded, but the method of delivery is a matter for NGOs and will be tailored around the specific circumstances of the people to be supported or the local community.

For FACS to select the appropriate service provider, a number of resource allocation mechanisms are employed which take into account whether there is a prescribed approach specified by the relevant funding program, knowledge of the market, the resources available for allocation. Sourcing can be undertaken through:

- individualised funding processes – where an eligible individual is directly funded for their support;
- direct allocation – where an eligible service provider with a demonstrated record of performance and capability is directly funded;
- selective tenders – where a small group of service providers are invited to submit competitive proposals to deliver a service;
- open tenders or expressions of interest – where a public call for competitive proposals is issued; and
- pre-qualified panels – where providers are 'registered' or 'validated' to deliver certain services and that verification allows for direct sourcing from a defined group of providers.

The FACS procurement policy is at:

http://www.community.nsw.gov.au/docswr/assets/main/documents/procurement_policy_dhs.pdf.

Non-competitive processes will be undertaken in a transparent and open way to ensure that probity considerations are addressed. Direct allocations will be recommended where there is a limited market (single supplier), previous market testing has identified only one

possible provider, there are emergency situations with clients at risk, clients have chosen a particular provider, or the cost of undertaking competition outweighs the value of the service.

Some areas of FACS are in the process of moving away from a procurement model to an investment model informed by regulation. This transition is critical to ensuring that there is adequate supply, innovation and flexibility to accommodate the diverse needs of service users and their right to choose where they receive support. For example, the disability sector is moving towards a person-centred service system in which people with a disability, their families and carers are placed at the centre of decision-making and supported to live their life the way they want to. In this system, people will have choice, portability and flexibility in the organisations that they choose for their direct support, including through individualised funding arrangements. This means that there will be a progressive shift from government determining the nature and composition of the market, to it being almost completely consumer driven. The move to a National Disability Insurance Scheme will force this shift at a much greater pace and move the responsibility of government from a supplier of services to more of a regulatory role.

Since the establishment of FACS in April 2011, effort has been made to determine an appropriate organisational structure and integration of certain funding-related functions to reduce duplication between FACS's respective agencies and to create a more consistent approach to how funding is administered and contracts are managed.

A one size fits all approach to contract management is unlikely to eventuate due to the diversity of the sector and the requirements set by legislation, including legislation under which providers are incorporated. However, consistency in how funding and supports are delivered to the sector across all agencies, including need for robust controls over the use of public resources, will be a priority.

6.2 Reporting arrangements

Reporting arrangements placed on NGOs form an important part of Funding Agreements. However, the Government acknowledges that often input reporting requirements have dominated at the expense of measuring client outcomes.

In general, FACS contract management arrangements are regionally based providing the benefit of locally based approaches with greater flexibility for monitoring performance and the reporting requirements required of providers.

There is a progressive shift in FACS to fund management systems that allow performance data to be linked with funding and output reporting data to develop high level performance profiles that can be used by regional staff to identify risks and anomalies, but also to inform growth decisions.

There are specific reporting arrangements in Funding Agreements that require high level acquittal of funding. However, specific information is also needed on both the supply and demand side of sectors to support policy development in these areas.

FACS has a program of work across its agencies to improve the management of information collected from NGOs to streamline collection methods, and also to ensure that regional contract managers have a complete picture of the performance of funded NGOs.

Financial reporting

All funded NGOs must financially acquit against the funding they receive on an annual basis. This includes the provision of supporting audited financial statements that support the NGOs report on individual service expenditure to FACS.

As with FACS' general approach to funding administration and management there is a risk approach applied to the acquittal process. That approach recognizes that detailed assessment of financial acquittal information should be undertaken in the context of broader risks associated with the service provider.

ADHC has implemented an 'Output Based Acquittal' option for providers who are able to meet certain assurance requirements agreed by their Boards. This is an incentive mechanism linked to red tape reduction arrangements which are set out in the next section.

ADHC also undertakes third party spot audits of financial acquittals, at least once for every provider over the three year funding cycle.

Minimum Data Sets

The Productivity Commission has noted that facilitating the sharing of client information and reporting on outcomes (on the 'record/report once use often' principle) can bring considerable cost savings for organisations and for clients.¹⁰ This can also enable service integration to the benefit of clients, and reduce the burden on them of having to repeatedly provide personal information. FACS is currently implementing an information sharing protocol as part of initiatives to reduce the burden of regulated reporting on providers.

Funded NGOs are required to report outputs delivered with their funding each quarter, as well as participating in ad hoc data collections. Minimum Data Set (MDS) reporting is an established model under Commonwealth/State Agreements and is a specified requirement in formal Funding Agreements with service providers. The data sets consist of an electronic quarterly collection of service delivery and client data from services funded and operated by FACS.

Data collected from providers also informs regional and individual service provider performance when compared with the agreed outputs under the formal Funding Agreements. The data also contributes to a view of service availability and usage:

- for clients and their families it means better information about service accessibility, appropriateness, efficiency and effectiveness;
- for service providers it means better data for review and service delivery planning and for improving internal management; and
- for program managers it provides a tool for policy development, strategic planning and performance monitoring against output/outcome criteria.

The collection of MDS data allows NSW information to be compared nationally and assists in the preparation of funding submissions and negotiations. They provide a rich source of information to predict market demand and model scenarios if it is possible to observe the linkages between various datasets within NSW and across Australia.

There are currently three MDS data collections undertaken within the FACS portfolio - Home and Community Care MDS, Disability Services MDS and Social Housing MDS.

In summary:

- Performance reporting that focuses on delivery of results for people needs to be linked with reporting on the use of funding to be a holistic picture of service effectiveness and efficiency.
- Controls are in place over the funding and improvements are being progressed through funding reform agendas.

¹⁰Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*

- There is a need for some variation in funding approach to ensure efficient and transparent models of assurance, regulation and performance reporting are in place.
- There is capacity for reduced costs to the sector and Government in regulation and red tape where capacity is optimal, mutual recognition across regulation systems exists and partnership is effective.
- New approaches to funding will be necessary for the NGO sector, as well as maintaining appropriate controls, in the shift to a person centred funding arrangement.

7 Quality, Monitoring and Regulation

Government has a responsibility to ensure the appropriate use of public resources that are provided to the NGO sector to support service expansion.

The government needs to determine the most appropriate form(s) of regulation to reflect the risk associated with that service expansion, invest in improving governance and management, and have effective and transparent accountability arrangements to prevent the misuse of those public resources. The regulatory approach should not overburden NGOs and divert scarce resources to unnecessary administration. It is possible to incentivise good governance and management by offering red tape reduction in exchange for demonstrated improvements and organisational controls.

Government also needs to establish better arrangements for providing and exchanging information to NGOs, within the context of legislation, to ensure that they have the information and resources available to support clients quickly. For example, FACS will work alongside the NSW Ombudsman and NGOs on developing appropriate protocols and principles to govern information exchange in the context of the transfer of children from CS to NGO's delivering OOHC services.

The regulatory approach that the NSW Government applies to funded family and community services varies across program areas due to the different nature of the services delivered, the risks these services present, and the legislative and national reform context.

7.1 Standards

Services in NSW, whether delivered by government or NGOs, are required to comply with a range of standards set by legislation.

There are a range of standards and mechanisms in place or under development nationally and within NSW that set minimum standards for service delivery. National reforms described earlier in this paper are also focussed on setting standards that create consistency across jurisdictions.

Examples of standards applicable to NSW family and community services include:

- The NSW **Disability Service Standards** which are linked to the principles under the Disability Services Act and have been in place in NSW since 1997. The standards are being revised to ensure that they align with new emerging national disability standards being developed as part of the National Disability Strategy, and also to reflect contemporary policy in disability service delivery within NSW.
- The **Community Care Common Standards (CCCS)** were developed by the Australian Government as part of the reform agenda to streamline administrative arrangements across community care programs and jurisdictions. In NSW, these standards apply to services under the Home and Community Care program. They will continue to apply to community care providers until 2015 in line with the agreement with the Commonwealth under the National Health Reform Agreement. The Agreement provides that service delivery mechanisms will not be substantially altered during the transition period.
- The **Children's Guardian** is established under the *Children and Young Persons (Care and Protection) Act 1998* (the Act) as an independent statutory office that reports directly to the Minister for Family and Community Services. The Children's Guardian regulates the provision of statutory OOHC, non-government adoption service providers, registers agencies that provide voluntary OOHC arrangements and the paid employment of children under 15 years of age (and child models under 16 years of age) in specific industries.

7.2 Monitoring

Monitoring of compliance against these standards and other funding conditions is provided for in the terms and conditions of Funding Agreements and is generally undertaken at a regional level with input from third parties (such as the Children's Guardian, and other accreditors and verifiers).

Monitoring and review activities can take the form of:

- specified reporting requirements against the outputs, results/outcomes, financials or overall compliance; and
- event driven activities which can happen as a result of a change in the funding arrangements, emerging issues with a provider, or an external trigger.

Each FACS agency has a different approach to monitoring. FACS will be considering the extent to which monitoring activities can or should be integrated as part of its organisational reform agenda.

ADHC monitoring

ADHC applies a risk based approach to monitoring. Its *Risk Identification and Monitoring Guidelines* assist regional staff (who are the primary contract managers) to identify and manage risk at the individual provider level. The focus of this approach is to reflect the proportionate risk presented by each NGO, moving away from a one-size-fits-all approach to one that allows the agency to direct contract management resources to organisations with higher risk.

Funding Agreements set out quality requirements and monitoring arrangements, the funding purpose, condition, and required outcomes for clients, as well as the policies and program guidelines that apply to the delivery of the services. Delivery of all these aspects of the funding arrangements is monitored.

The focus of monitoring is on organisational issues that might indicate risks to the health, safety and wellbeing of clients, or misuse of funding. Risks are assessed from multiple sources including:

- reconciliation and consolidation of performance data, including output reporting, financial acquittals, and an annual compliance return (an assurance report endorsed by the Board of each NGO);
- individual NGO trend data (growth, service types, target groups, locations etc);
- issues identified during service visits;
- service user, peer and community feedback;
- complaints by service users;
- issues raised by a provider directly, for example fraud or misappropriation of funding by a staff member;
- the extent to which the provider engages in community forums, planning activities etc;
- watchdog reports – such as the Ombudsman's community visitors feedback, or complaints referred to the Ombudsman by the public; and
- referrals from other funders.

This information is aggregated to develop an overall risk picture. ADHC is also working towards a whole of organisation view to add to the risk profile and has started work with the Office of Fair Trading to exchange information on incorporated associations.

The *Risk Identification and Monitoring Guidelines* have been developed to guide regional contract managers in identifying and assessing provider risk annually. The risk levels and issues identified through the risk monitoring approach inform future funding decisions.

Community Services Monitoring

Community Services' funding agreements are based on a performance contracting approach, with a Performance Monitoring Framework (PMF) in place that also articulates quality requirements and monitoring arrangements. Guidelines, developed from evidence based models, articulate the purpose and parameters of funded programs and ensure that NGOs are informed about what is being funded and why. NGOs undertake to achieve outcomes that are consistent with the objectives of specific programs.

The new PMF approach is being implemented in a way that allows time for funded NGOs to adapt to the new expectations and processes, particularly data recording and reporting. PMF processes will be used in conjunction with quantitative data reporting and financial acquittal documentation to monitor the performance of funded services, negotiate ongoing improvements and support funding decisions.

The PMF is used to routinely monitor and assess the performance of funded service providers against the key performance elements of the Agreement. These elements include Financial Management, Service Data Collection, Client Group, Geographic Coverage, Service Activities, and Service Results.

The PMF involves a number of processes, including a self assessment which is completed by the service provider within four months of the end of the financial year, and a desk top review conducted by Community Service funding staff. Depending on any issues identified, a Performance Improvement Plan will be developed in agreement with the NGO.

7.3 Complaints management

Effective complaints management is an important element of NGO internal quality monitoring practices and a key input to risk identification and management practices. It is also a way for providers to learn about what is important for people using their services, to build relationships through local resolution, and achieve outcomes in the best interest of the person.

FACS expects that NGO providers have the systems, processes and practices in place to enable complaints to be appropriately addressed, support service delivery, enable ongoing improvements and support risk management practices. Complaints management has been included in Agreement requirements and industry development materials, such as requirements under the *Community Housing Compliance and Performance Management Framework*, and advice regarding complaints management for providers.

To support ongoing improvements in complaints management practices across the sector, ADHC, in collaboration with the NSW Ombudsman and the Public Guardian, has also issued a revised Complaints Management Standard as part of its revision to the Disability Service Standards. These Standards will be supported by detailed resources and training material to assist NGOs in establishing complaints management policies, systems, feedback mechanisms and client support arrangements.

This follows on from similar work in 2011 to establish detailed fraud and risk management planning and management resources for NGOs, including face to face training on mitigating fraud and corruption risks. These detailed resources assist organisations in fraud and corruption risk identification, mitigation, reporting and management.

The requirement for complaints, fraud and risk management controls is also included in the ADHC Funding Agreement.

7.4 Reducing the regulatory burden

Reducing the regulatory burden is important to all stakeholders. In particular, reducing regulatory costs is important so that funding can be applied to service delivery activities rather than administration.

FACS has previously undertaken a range of red tape initiatives and is actively working with the sector on a range of other initiatives. Some examples of this include:

- the development of new Funding Agreements for disability that reduce contract administration requirements and strengthen clarity around compliance obligations, management issues, reporting and quality;
- the development of a standard FACS funding application form and improved use of e-tendering arrangements;
- establishment of pre-registration panels for some services, including disability accommodation, community access, and OOHC;
- implementation of a FACS Procurement Policy Framework that streamlines funding allocation processes;
- standardised and streamlined insurance requirements;
- introduction of common thresholds for audit requirements linked to incorporation;
- introduction of results based monitoring; and
- more quantitative performance monitoring to reduce reliance on qualitative reporting.

Recognition of performance across FACS agencies

FACS has put in place a recognition arrangement between ADHC and Community Services, with the intention of further reducing the regulatory burden on NGOs that are jointly funded, of which there are around 192 organisations. *Towards Mutual Recognition: Information Sharing Protocol* (the Protocol) is being implemented by FACS regions. Under this policy, agencies are expected to exchange information about compliance, third party accreditation or verification, data and financial reporting, and any management issues under the Funding Agreement. This approach will assist in jointly managing issues with providers, and ensure that the agencies work together to share intelligence to ensure that any impacts on service users can be managed in an appropriate and consistent way. It will also ensure that there is a single contract management approach with the NGO, or ideally, that the issue is avoided altogether through joint support to the provider.

The protocol is being undertaken in two phases, the first involving information sharing, followed by a longer term project to recognise the external quality systems that NGOs might already be using. This approach will result in a reduction in duplicate requests for information about funding, and over time, information about reporting and performance. This will contribute to a more efficient funding environment and a greater focus on service delivery and improving outcomes for people receiving services.

New Disability quality framework

ADHC is working in partnership with National Disability Services (NDS) to develop a Quality Framework for Disability Services in NSW (the Framework).

The focus of the Framework is to improve the transparency of service delivery and to ensure that people with a disability, their families and carers have information about, and can be assured of, the quality of the services on offer from funded NGOs.

The Framework is built on the National Quality Framework and is underpinned by the NSW Disability Services Standards. In NSW, all funded service providers are required to

comply with the *NSW Disability Services Act 1993* and the Standards as a condition of their Funding Agreement. A feature is recognition of other quality systems, and third party accreditation arrangements.

Most disability providers have accreditation with Commonwealth agencies, and have been verified against other standards such as the community care common standards or by the NSW Children's Guardian. Rather than replicate those assurance mechanisms and require providers to duplicate requirements, ADHC's approach has been to 'take credit' for non-disability sector accreditations where these meet the requirements of the disability service standards in full or in part. ADHC has been working with the Joint Accreditation System of Australia and New Zealand (JASANZ) to validate mapping of accreditation systems against the standards, and to develop clear guidelines for third party verifiers to verify that providers are delivering services in accordance with the standards.

ADHC will support service providers with quality tools and resources to build their understanding of quality improvement and outcomes measurement to enhance organisational capacity. This support will be provided via National Disability Services, with around \$7 million of the \$17 million Industry Development Fund being directed to provide quality systems for NGOs that do not have a formal quality process, access to external experts to support organisations in embedding quality and standards compliance across their organisation, and the costs of a third party verification through a JASANZ accredited body.

7.5 Community Housing regulation

The regulatory system in place for community housing providers has a strong emphasis on the need to maintain housing assets. The regulatory system is administered by an independent statutory officer, the Registrar of Community Housing, and aims to ensure that community housing is developed as a viable and diversified component of the NSW social housing sector.

Under the regulatory system, all community housing providers that receive assistance from Housing NSW must be registered and comply with the NSW Regulatory Code. The level of requirements for each performance area is proportionate to the scope and scale of operation associated with the registration class of an organisation. Importantly, not all classes of registration involve organisations meeting all requirements.

In December 2010, following consultation with the community housing sector and Housing NSW, the Registrar published an Interim Compliance Framework to provide a platform for compliance promotion and assessment. The Interim Compliance Framework has been extended as the operative guidance for compliance activity under the Housing Act until the commencement of the National Regulatory System. This approach will minimise the impact and burden of further regulatory system changes for the sector, and will allow a more streamlined transition to the national arrangements.

The Registrar's approach is to promote a culture of compliance throughout the sector, and to assess compliance periodically, to ensure that registered community housing providers maintain high standards of performance.

Details of the Community Housing registrars' approach can be found at <http://www.rch.nsw.gov.au/>.

In 2011, Housing NSW streamlined its contractual arrangements with community housing providers and is currently implementing a Community Housing Compliance and Performance Management Framework that works in conjunction with the Regulatory system. The Framework aims to assess providers' compliance against their contractual obligations, identify early signals of poor performance and non-compliant activities, and provide a systematic approach to address these issues.

The NSW community housing regulatory system has adopted a proportional approach, whereby any regulatory action focuses on the risk being regulated. Under this approach, the minimum regulatory action required is used to achieve the desired regulatory result.

The registration requirements for registered community housing providers in relation to governance, probity and financial viability are assessed at the whole-of-business level.

In summary:

- Offering streamlined regulatory approaches as an incentive for improving governance, controls, financial and stakeholder engagement arrangements should be pursued.
- Clear quality parameters need to be articulated and embedded in funding arrangements.
- A risk based approach to regulation is necessary to allow partnerships to ensure that resources can be directed to best benefit.

8 Investment

One strength of the NGO sector is its ability to leverage social investment. NGOs are well positioned to access, use and build revenue to contribute to their operations, independent of government.

In 2011, Ageing Disability and Home Care commissioned research on forms of social investment that may be useful to consider in the context of NGO delivered disability services. The research, although targeted to the disability sector, contains information that is applicable across all family and community service sectors and may be of interest to the Committee. Appendix A summarises some of the investment types.

Social Benefit Bonds Trial

The NSW Government is currently undertaking a trial of Social Benefit Bonds (SBBs), targeting out- of-home care and recidivism. By raising capital from investors, based on a contract with government, the SBBs aim to deliver improved social outcomes and generate future government cost savings.

The SBB concept is expected to provide multiple sources of value to the NSW Government including:

- increasing funding for early intervention and prevention;
- engendering social, financial and economic benefits;
- supporting innovative approaches which reward outcomes;
- enhancing the evidence base due to the necessity for robust performance measurement;
- improving accountability in relation to the outcomes of NSW Government funding; and,
- Implementing a shared risk between the NSW Government, NGOs and social investors.¹¹

The NSW Government has allocated \$21 million to fund the trial.¹²

Descriptions of different models of investment, including social bonds, social impact bonds and public private partnerships are included in the appendix.

Supporting intermediaries

Specialist financial intermediaries connect NGOs with sources of capital, and volunteer clearing houses link volunteers to NGOs, including for corporate 'pro bono' services.

Government support for intermediary services for NGOs in Australia is fairly limited – but government can play an important role in building the supply of intermediary or service organisations and in stimulating demand. An alternative approach is for government to coordinate capacity building investments to take a more strategic approach to developing the support services for NGOs.

Opportunities to leverage social investment

FACS is investigating opportunities to support and encourage the NGO sector to leverage social investment. While direct service volunteering is the most common form and is

¹¹ Centre for Social Impact 2011, *Report on the NSW Government Social Impact Bond Pilot*

¹² Pro Bono Australia 2011, *NSW Government to launch pilot tender process for social benefit bonds*

important to provide a wider workforce, there are other means by which to leverage social capital that could have equally important impact on governance or resourcing.

Volunteering

An important facet of NGO capacity building will be the leveraging of social capital that is not always available to government agencies and business. This includes volunteers, the ability to mobilise communities on local issues, facilitate community participation for shared community benefit, and to generate revenue from private sector sources to supplement funding from Government.

Philanthropy

There are limits to what any government is able to fund, and public funding for innovation will generally be focused on innovation that is applicable at a jurisdiction level or addresses issues of broad public interest. NGOs have to look beyond government for innovation funding. Philanthropy is a major source of funds for innovative approaches. As businesses and private donors mature in their philanthropy, they go from making grants (giving money and some time), to social investment, i.e. giving money, time, information, skills, goods, services, voice and influence.¹³

Traditional models of corporate community partnerships are philanthropic in nature and characterised by a donor-recipient relationship, where the NGO receives funds and the donating corporation strengthens their reputation in the market.

Corporate community partnership models are evolving across a continuum, ranging from this traditional philanthropic stage, to a more transaction exchange, and finally, to a sophisticated integrative arrangement, whereby the partnership between NGO and corporation involves leveraging resources and undertaking action that is specific to the collaboration.¹⁴

There are many corporations that provide financial and in-kind assistance to NGOs through their corporate responsibility and foundation arms. Typical examples of support and contributions available within corporate partnership arrangements include:

- pro-bono work;
- direct philanthropy;
- gifts in-kind;
- volunteering;
- workplace fundraising;
- workplace giving and payroll deduction programs;
- marketing related sponsorships; and
- cause-related marketing.

While partnership arrangements provide a source of funding for NGOs, they also offer other benefits, including increased public awareness, skills transfer and capacity building, reputation leverage, and increasing access to other resources and opportunities.

Potential to leverage off government assets

¹³ Productivity Commission 2010, *Contribution of the Not-for-Profit Sector*

¹⁴ Austin, J. (2002), 'Strategic Alliances: Creating For-Profit and Nonprofit Partnerships', Harvard Business School Leading Research, 3(4); cited in Centre for Corporate Public Affairs, op. cit.

When considering asset title transfer compared to management in the social housing sector, it is important to understand the type of organisation-associated risk taken on by government.

There are many corporations that provide financial and in-kind assistance to NGOs through their corporate responsibility and foundation arms. Typical examples of support and contributions available within corporate partnership arrangements include:

- transfer of title/ ownership will enable the provider to secure debt finance facilities and have greater control of property management;
- there is capacity for government to 'avoid' future maintenance costs and liabilities;
- risk management and security mechanisms are critical to ensure that the government investment is protected and there is continuing use of the property for its intended purposes. This is supported by statutory regulation and also achieved through registering an interest or creating a charge in an agreement, while still allowing the NGO to leverage the equity in the property; and
- there will be a need for ongoing development of NGO organisational capacity development to ensure that properties are managed and leveraged appropriately, and that tenant wellbeing is maintained.

In summary:

- The NGO sector has a unique capacity to generate social capital.
- Investment opportunities for the sector should be explored and promoted.
- There is the potential to leverage off government assets to generate revenue for service delivery or additional infrastructure.

Appendix A - Investment Models

Other forms of social investment that are used within the NGO sector include:

Social bonds

Bonds are types of financing instruments designed to enable the issuer to raise debt-financing. Social bonds are securities issued by NGOs to raise debt-capital, and are most often used to raise capital for acquiring buildings, infrastructure, or in social enterprises with reliable future revenue streams.¹⁵

Social impact bonds

Social impact bonds (SIBs) are a relatively new concept and build upon a payment by results model.¹⁶ SIBs provide a mechanism for the private sector to invest in NGO community programs, where government, NGOs and investors come together in a scheme of shared risk for the purposes of achieving social difference.¹⁷ SIBs provide government and NGOs with upfront capital to deliver services that contribute to concrete outcomes over the medium to longer-term.¹⁸

A SIB involves raising the capital from investors and commissioning NGOs to deliver the services using those funds, typically via an intermediary agency under contract with government.¹⁹ The purpose of SIBs is to achieve improved social outcomes or results (i.e. according to agreed targets), which should deliver subsequent cost savings to government, and then translate into a financial reward for investors (e.g. dividend payments).²⁰

Public private partnerships

Public private partnerships (PPPs) cover a multitude of arrangements where the private sector delivers a public project, asset or service. Typically in these arrangements, the private provider owns the infrastructure for the term of the contract (after which the asset transfers to public ownership), providing contracted services that are paid for by government or consumers. Fundamental to the PPP model is that payments to private sector contractors are not made until the asset is commissioned and operational and can depend on quality of the services.²¹

One of the attractive features of PPPs, in contrast to traditional procurement avenues, is that returns to the private sector are linked to service outcomes and performance of the asset over the life of the contract.²² Other key benefits of PPPs include reduced upfront government investment, greater efficiency and management, focus on outputs and benefits from the start, incentivised quality in service delivery, leveraging of private sector technical or management expertise, and reduced or better allocated risk.^{23,24}

¹⁵ Canadian Taskforce on Social Finance 2010, *Mobilizing Private Capital for Public Good*.

¹⁶ UK Cabinet Office, 2010, *Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery*.

¹⁷ The Centre for Social Impact 2011, *Report on the NSW Government Social Impact Bond Pilot*.

¹⁸ Australian School of Business 2011, *Social Impact Bonds: Can this new asset class create more than a win-win?* Knowledge@Australian School of Business. March 15, 2011. <http://knowledge.asb.unsw.edu.au/article.cfm?articleid=1359>. [Accessed 17/4/12].

¹⁹ The Centre for Social Impact, op.cit.

²⁰ Cabinet Office 2010, *Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery*.

²¹ English, L. 2007, *Public private partnerships in Australia: An overview of their nature, purpose, incidence and oversight*. *UNSW Law Journal*. 29(3), p 250-262.

²² PricewaterhouseCoopers 2005, *Delivering the PPP promise: A review of PPP issues and activity*.

²³ Ibid.

²⁴ Bhattacharya, D. and Rahman, M., 2010, op.cit.

Community Development Financial Institutions

The role of the community development financial institution (CDFI) is to source capital from institutional investors, individuals, philanthropic foundations, not-for-profit cash reserves and government in order to provide accessible capital and business support to NGOs. CDFIs support NGOs with a mix of finance ranging from grants to low interest and market rate loans.²⁵ These types of specialist financial intermediaries are commonplace in the US and UK markets.

Business models and social enterprise

Revenue obtained through business operations is another approach to building an NGO's capacity in the market and reducing the reliance on government funding or philanthropic sources. By building revenue through business operations or social enterprise, NGOs are better able to diversify their funding and resource base, strengthening their ability to become more sustainable.

²⁵ Lyons, M. et al. 2007, *Capital Access of nonprofit organisations*. *Agenda*, 14(2), 99-110.

Appendix B - Work in Other Jurisdictions

State and Territory governments are undertaking initiatives affecting the delivery of family and community services through NGO providers. The material presented below provides examples of initiatives in progress across jurisdictions.

Queensland

Reform work in progress

Key reforms under the Queensland Department of Communities' Regulatory Simplification Plan include:

- introducing common service agreements;
- transitioning a significant proportion of service agreements between government and NGOs to outputs, rather than inputs, to clarify what is being purchased and to streamline reporting;
- commencing work on a single piece of funding legislation for government to fund NGO organisations, in order to streamline existing laws;
- implementing a risk-based approach to monitoring the performance of service providers, which will reduce the frequency of reporting for low-risk providers;
- providing an online reporting tool to make it easier for providers to update records and report the information requested by the department; and
- assessing the findings of a trial of a one quality framework for human services to reduce duplication and compliance costs for providers.

Planned reform work

The 2008 Queensland Compact sets out expectations and commitments for the Queensland Government and the Non-profit Community Services Sector to work together in a respectful, productive, forward-looking relationship that benefits the community. Priority actions to be progressed through the Queensland Compact during 2011/12 include:

- working with government and sector organisations to continue to strengthen the human services workforce;
- continuing to support red tape reduction strategies to improve efficiency of government and sector organisations;
- supporting regional Queensland Compact activities to improve local service delivery;
- continuing to deliver tools and processes which drive reforms and improve coordination and innovation; and
- undertaking an independent review of progress towards the Compact goals to inform future priorities and implementation.

On a program level, the Queensland Government recently funded the Queensland Council of Social Service in collaboration with National Disability Services and Jobs Australia to provide practical support to NGOs affected by proposed amendments to the Fair Work (Transitional Provisions and Consequential Amendments) Regulations 2009 (Cwth). This support includes a free-call hotline and email help-desk for information and advice, the delivery of information seminars to potentially affected NGOs, delivered in

eleven locations throughout the state, and the development of tools and templates to assist affected NGOs.

Australian Capital Territory

Reform work in progress

The proposed Outcomes Based Service Funding Agreement Purchasing Framework (the Purchasing Framework) is a procurement and contract management framework designed to improve and deliver efficient and effective population outcomes for vulnerable people in Canberra across ACT Government funded human services. It will include a prequalification framework and an outcome based reporting framework. The Purchasing Framework is being developed in consultation with Government and NGO providers who deliver a range of housing, therapeutic and community support services. It is being designed to ensure that it is transferrable across other Government departments and applicable to all human services.

Jobs Australia, in partnership with the ACT Council of Social Service received ACT Government funding over a two year period to provide a sustainable industrial relations information and advice service for ACT community sector employers.

Planned reform work

The ACT will be assessing a range of measures designed to improve the efficiency and, over time, lead to improved productivity across the sector. These measures are being considered in conjunction with a package of support arrangements to assist with the phasing in of higher salaries and with the objective of delivering a stronger and more capable sector. Measures being assessed include:

- working with the sector to achieve a reduction in administrative costs;
- a reduction in employee on-costs where possible (such as workers' compensation premiums); and
- efficiencies from a reduction in the cost impact of doing business with the government (procurement, contract management, reporting etc).

Achieving greater economies of scale by improving the operational deployment of resources:

- increasing staff and management skills (and hence productivity);
- improving the collection and use of data at both the operational and strategic levels;
- improving reporting at both the operational and the strategic levels;
- improving the strategic allocation of resources (evidence based policy decisions); and
- improving governance capability.

South Australia

Reform work in progress

In South Australia, standard terms and conditions for grant funded NGOs across the Department for Families and Communities and Department of Health are in place.

In addition, the SA Department for Families and Communities has implemented a Delivering Community Value Framework following the exemption of community type

services from the State Supply Act. This enables more flexibility and partnership with the community services sector.

As part of the 2007/08 budget, the SA Department for Families and Communities and the SA Department for Health were allocated additional indexation funding of 1 per cent per annum for NGOs funded under eligible programs, increasing the standard State rate. At the time, it was decided to only pass the 1 per cent on to NGOs that could prove the additional funding would be directed towards employees' wages and conditions. Given the financial pressures facing NGOs as a result of the Global Financial Crisis, it was decided that from 2009/10 onwards, this condition be relaxed and the additional 1 per cent be automatically passed on to all eligible NGOs.

Western Australia

Reform work in progress

The Western Australian Community Sector Funding Working Group was established by the WA Department of the Premier and Cabinet in 2010, comprising representatives from a number of central agencies. The aim of the group was to develop a recommendation to the Partnership Forum for a sustainable funding and contracting approach for the NGO sector. The Partnership Forum is a high level group responsible for overseeing the relationship between the government and NGO sectors.

The Working Group commissioned a review of the sector to examine funding arrangements and costs arising from wages and other expenditure items. PricewaterhouseCoopers undertook this review, examining a range of NGO providers.

In the 2011 State Budget, the Western Australian Government allocated an extra \$600 million over four years for the NGO sector. The additional funding was to ensure a sustainable sector and address a shortfall in the amount paid by Government to the sector for the services they provide.

As well as providing additional funding to improve services and support, the Western Australian Government is implementing a number of other reforms to ensure the NGO sector can be more flexible and responsive in the way they provide care. This includes less onerous and cumbersome reporting requirements on the NGO sector and standardising contracting practices across government agencies.

Tasmania

Reform work in progress

Tasmania undertook an extensive review into unit costing of disability, family and out-of-home care services, and has finalised the outsourcing of disability services to the NGO sector in the last financial year. While the move was largely driven by best practice and a desire to separate policy from service provision, the resulting increase in NGO sector funding is expected to contribute to improved economies of scale and enhanced sector viability and sustainability.

The Tasmanian Government is considering a range of recommendations out of the unit costing review.

Appendix C - Supporting documents

The following FACS documents have been provided as supplementary information to support the committee's considerations. The material has been classified against the inquiry's terms of reference to assist comprehension.

a) State Government processes, outcomes and impacts of transferring housing, disability and home care services from Government to non-Government agencies

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http://users.tpg.com.au/adslrnvj/Publications/Misc_publications/PFTFCompleteDec2007.pdf.

Housing Ministers Advisory Committee 2011, National Regulatory System for Community Housing Providers – *Regulation Impact Statement 2011 incl state based profiles*, <http://www.nrsch.gov.au/>

NSW Department of Family and Community Services (FACS), Ageing, Disability and Home Care 2011, *Potential Contribution of the NGO Sector to Deliver More and Better Services to People with a Disability*, FACS, Sydney http://www.adhc.nsw.gov.au/sp/funding_and_grants

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c) The development of appropriate levels of integration among service providers in rural and regional areas to ensure adequate levels of supply and delivery of services

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