



UNSW
SYDNEY

SPRC
Social Policy Research Centre



Counting the Costs: Sustainable funding for the ACT community services sector

Prepared for:
ACT Council of Social Service (ACTCOSS) on behalf of the ACT
Community Services Industry Strategy Steering Group (ISSG); and
the ACT Government

December 2021

Natasha Cortis, Megan Blaxland, Elizabeth Adamson



Acknowledgements

The research team is grateful to the many community sector managers, workers, government representatives and other informants who so generously provided input. The ACT Community Services Industry Strategy Steering Group (ISSG) provided expert guidance and helped facilitate access to information, and the Australian Services Union helped organise the worker forum. Of course, the opinions provided in the report are those of the authors.

Research Team

Natasha Cortis, Megan Blaxland and Elizabeth Adamson

For further information:

Natasha Cortis +61 2 9385 7833

Social Policy Research Centre

UNSW Sydney NSW 2052 Australia

T +61 2 9385 7800

F +61 2 9385 7838

E sprc@unsw.edu.au

W arts.unsw.edu.au/sprc

© UNSW Sydney 2021

The Social Policy Research Centre is based in the Faculty of Arts, Design and Architecture at UNSW Sydney. This report was commissioned by the ACT Council of Social Service.

Suggested citation:

Cortis, N., Blaxland, M. and Adamson, E. (2021). *Counting the Costs: Sustainable funding for the ACT community services sector*. Sydney: UNSW Social Policy Research Centre.

Contents

Figures	ii
Tables.....	ii
Glossary	iv
Executive Summary.....	1
1. Introduction	6
1.1 Background	7
2. Historical factors impacting on cost expectations	9
2.1 Gender-based undervaluation.....	9
2.2 Expectations of low overheads	9
2.3 Competitive funding models.....	10
2.4 Expectations that non-profits can cross-subsidise.....	10
3. Increases in resource pressures since 2016	11
4. A closer look at demand pressures in the ACT	13
4.1 Population growth	13
4.2 COVID-19 and increased support needs	13
4.3 Rising living costs and financial stress	14
4.4 Housing pressures and unmet need.....	14
4.5 Growing mental health needs	15
4.6 Complex need among children and families	16
5. A closer look at cost pressures in the ACT.....	18
5.1 Employment and wages costs	18
5.2 Sector experiences of employment cost pressures	19
5.3 Advocacy, access and engagement costs	22
5.4 Business overheads and infrastructure costs	24
5.5 Evaluation, reporting and governance	27
5.6 Unquantified activities in funding agreements	28
6. Current responses to resource pressures	29
6.1 Indexation	29
6.2 Sector views on indexation.....	30
6.3 Applying for ACT Government funding.....	32
6.4 Staffing and service delivery responses	34
6.5 Financial responses.....	36
7. Improving funding in the ACT	37
7.1 The 2022 review of indexation	37
7.2 Coverage of full costs	40
7.3 Cross-subsidisation	41
7.4 Finding further cost efficiencies	42
7.5 Accurate service costing	43
7.6 Resourcing quality early intervention and prevention	44
7.7 Monitoring population needs	44
8. Recommendations	45

8.1 Adjustments to respond to rising costs	45
8.2 Adjustments to respond to rising demand and unmet need	46
8.3 Conclusion.....	47
Appendix A Information about methods	48
Appendix B About participants in the ACT Service Costing Survey	49
Appendix C Supplementary Data.....	53

Figures

Figure 3.1 Perceptions of ACT funding adequacy, 2016 and 2021	11
Figure 5.1 Perspectives on coverage of employment-related costs.....	20
Figure 5.2 Perspectives on coverage of advocacy, access and engagement costs	23
Figure 6.1 Indexation rates from 2007-08 to 2021-22 (%)	30
Figure 6.2 Perspectives on indexation	31
Figure 6.3 Decisions about applying for ACT Government funding, in the last 3 years ...	33

Tables

Table 5.1 Leaders' comments on employment costs	21
Table 5.2 Leaders' comments on costs of advocacy, access and engagement	23
Table 5.3 Leaders comments on business overhead costs.....	26
Table 5.4 Leaders' comments on evaluation	27
Table 6.1 Leaders' comments on indexation	31
Table 6.2 Leaders' comments on consideration when applying for ACT funding	33
Table 7.1 Comparison between the Community Sector Funding Rate and the recommended formula.....	39
Table 7.2 Leaders' comments on accurate service costings	43

Data in Appendix B

Figures

Figure B. 1 Size of participating organisations (annual income), n=88.....	49
Figure B. 2 Number of ACT Directorates organisations received funds from, n=88	49
Figure B. 3 Number of Directorates from which core funding was received, n=88	51
Figure B. 4 Number of Directorates from which project funding was received, n=88	51

Tables

Table B. 1 Number of participating organisations who received core and project funding from each Directorate, n=88.....	50
Table B. 2 Number of ACT Directorates that organisations received funding from, by size of organisation (annual revenue)	50
Table B. 3 Participants who answered questions about funding stream	52

Data in Appendix C

Figures

Figure C. 1	People receiving Jobseeker, Parenting Payment and Youth Allowance in the ACT, June 2016 to June 2021	53
Figure C. 2	ACT expenditure on specialised mental health services (\$m, 2018-19 dollars), and % of spending to NGOs	53
Figure C. 3	Proportion of children developmentally vulnerable, 2015 and 2018	54
Figure C. 4	Change in hourly rates, Social and Community Services Employees, full and part time (ACT), 2014-2021	54
Figure C. 5	Regional Internet Vacancy Index information for community service occupations in the ACT	55
Figure C. 6	Perspectives on coverage of infrastructure costs	55
Figure C. 7	Perspectives on coverage of evaluation, reporting and governance related costs	56
Figure C. 8	Percentage increase in SCHADS award rates resulting from Annual Wage Review, and Community Sector Funding Rate, 2014-15 to 2020-21	56
Figure C. 9	Main considerations when applying for ACT Government funding	57
Figure C. 10	In the last three years, which of these staffing and service delivery strategies have been used by your service to help manage your ACT government funding?	57
Figure C. 11	In the last three years, which of these financial strategies have been used by your service to help manage your ACT government funding?	58

Tables

Table C. 1	Approximate proportion of organisations' total annual income which came from each source in 2020-2021, mean and median, by main ACT funding source	58
Table C. 2	Community Services Directorate Spending on Grants and Purchased Services, 2015-16 to 2019-20.	59
Table C. 3	Change in employment expenses as a proportion of total expenses from 2015 to 2019, community service charities based in the ACT	59
Table C. 4	Indexation rates for community services funding by jurisdiction, 2020-21	59
Table C. 5	Perceptions of whether or not funds were indexed each year	60
Table C. 6	Perspectives on coverage of employment-related costs, funding received from Community Services Directorate	60
Table C. 7	Perspectives on coverage of employment-related costs, funding received from ACT Health Directorate	61
Table C. 8	Leaders' perspectives on their capacity to cost services, by annual income ..	61
Table C. 9	Staffing and service delivery strategies used in the last three years to help manage ACT Government funding, by main ACT funder	62
Table C. 10	Financial strategies used in the last three years to help manage ACT Government funding, by main ACT funder	62
Table C. 11	Proportion of organisations taking particular actions when applying for ACT Government funds	63

Glossary

ABS	Australian Bureau of Statistics
ACNC	Australian Charities and Not-for-profits Commission
ACT	Australian Capital Territory
ACTCOSS	Australian Capital Territory Council of Social Service
ACTHD	ACT Health Directorate
AEDC	Australian Early Development Census
AIHW	Australian Institute of Health and Welfare
CPI	Consumer Price Index
CSD	Community Services Directorate
ERO	Equal Remuneration Order
ISSG	Industry Strategy Steering Group
JCGRG	Joint Community Government Reference Group
PC	Productivity Commission
SCHADS	Social, Community, Home Care and Disability Services Industry Award
SPRC	Social Policy Research Centre
UNSW	University of New South Wales
WPI	Wage Price Index

Executive Summary

This report informs development of more sustainable models of resourcing for the ACT community services sector. It presents a comprehensive picture of the costs involved in delivering community services, the cost pressures experienced by community organisations in the ACT, and ways to ensure funding is sustainable and at levels that meet community needs. It was commissioned by ACTCOSS on behalf of the ACT's Community Services Industry Strategy Steering Group (ISSG) and the ACT Government.

Historically, the full costs of community service provision have been hidden.

Over decades, expectations about how much community services should cost to deliver have been lowered by:

- gender-based undervaluation;
- misunderstandings about the importance of overheads;
- competitive funding models; and
- expectations that non-profits will supplement shortfalls in government funding.

Currently however, community sector organisations in the ACT are facing pressures of rising demand and rising costs.

Increasingly, ACT community sector organisations report that ACT Government funding is too low. In 2021, compared to 2016 (when information was last collected), smaller proportions of organisations report that funding from the ACT Government covers the true costs of delivering ACT programs; that funding levels enable organisations to meet demand; and that funding enables staff to be appropriately paid for their skills.

Data attests to population changes and increased complexity of need in Canberra which have compounded pressure on community services in recent years, including rising housing and living costs and the mental health and economic impacts of the COVID-19 pandemic. In addition, employment pressures and employment costs have grown.

Organisations report gaps in support for employment costs.

The Service Costing Survey, completed by leaders of 88 organisations, showed that major streams of ACT funding are leaving essential employment costs unfunded. In the survey:

- only 12% of organisational leaders said their funding stream adequately covers backfilling, which ensures service continuity when a staff is absent;
- only 17% said they were adequately funded to cover costs of staff supervision;
- only 22% said they were adequately funded to employ enough staff; and
- only 25% were adequately funded to manage volunteers.

Inadequate resources to employ and support staff reduces organisational capacity and causes some services to 'cut corners'. Underfunding has contributed to unpaid and underpaid work in the ACT community sector; loss of staff, especially to the public sector; and over-reliance on volunteers. As well as affecting the workforce, this affects quality and outcomes for clients and communities.

The sector reports gaps in support for some essential activities.

Resource gaps are evident for some essential activities which are expected by government and which support government capacity, such as: consulting with and providing input to government; participating in policy reform processes; and involving service users with lived experience in service development. These activities are impractical for organisations to sustain without sufficient support, and are integral capabilities for a collaborative commissioning approach. They should be explicitly recognised in contracts and funded.

A particular concern for community organisations is the lack of funds to support monitoring and evaluation of programs. While some organisations can fund evaluation from private sources, only 13% said that the funding received from the ACT government adequately covers evaluation. This results in sub-optimal information to understand how interventions are working, and reduces capacity for service improvement.

Other essential infrastructure or overhead costs are widely considered unfunded or underfunded, including legal support, regulatory compliance, technology, security and vehicles. Some organisations charge administrative fees to cover these functions, while others draw on other organisational sources, or pool small amounts of funds across programs. However, cross-subsidisation is not an option for all. Further, leaders noted that some costs, including accommodation, insurance, technology and data systems, are rising.

Strategies for addressing rising demand and rising costs are not working

The ACT Government and community organisations use a wide range of strategies to manage and respond to pressures of rising demand and rising costs. Indexation of multi-year grants by government is a key strategy for maintaining the sector's purchasing power over time. However, the indexation formula (known as the Community Sector Funding Rate and announced each year in the ACT Budget) has resulted in falling indexation for ACT funded services for at least 15 years. Indexation has not enabled community sector organisations to cover increased minimum wage costs. Indexation has also left gaps in support, as not all ACT funding streams are indexed.

In the Service Costing Survey, only 12% of leaders agreed with the statement 'Overall, indexation is adequate'. Very few (6%) said they can have input into how their contracts are indexed. Organisational leaders were concerned about how the indexation formula accounts for their rising costs. They highlighted the need for closer dialogue with government over indexation arrangements.

Despite their best efforts to ensure clients and communities are not affected by limited funds, some responses to under-resourcing are impacting on clients, staff, organisations and the quality of government programs:

- Around half of leaders (51%) said their organisation used casual or short-term staff, due to resource pressures;
- Almost two in five organisations required workers to perform tasks above their classification, due to lack of funds (39%)
- A third (34%) said they targeted specific groups of clients, due to limited funds or staffing constraints.

- 47% of leaders said their organisation had incurred a loss on programs delivered for the ACT government.

Poor cost coverage deters organisations from engaging with government.

- 61% of leaders said their organisations had decided not to apply for ACT funds in the last three years because of poor cost coverage, and
- 56% had applied even though funding arrangements required the organisation to cross-subsidise.

Problematic practices are entrenched and complex. CEOs recognise their own organisations' practices can compound cost pressures. Some CEOs report pressure to lower costs comes from Boards, and some organisations offer services below their true costs to ensure competitiveness.

- 25% of leaders said their organisation had decided to offer services at below-cost to ensure they were competitive.

This sends misleading signals to government about costs.

Sometimes, organisations may choose to cross-subsidise. However, fundraising to cover shortfalls can distract from a focus on outcomes. Philanthropy can be volatile and is not an option for all organisations. Indeed, the median amount of income ACT organisations receive from philanthropy or commercial sources is zero, indicating at least half do not have private income streams with which to supplement government programs.

Adjustments are needed to respond to rising costs

In its 2021-22 Budget, the ACT government announced it will review the Community Sector Funding Rate that will apply in future years. This sets an important platform for change.

➤ *Recommendation 1: Adopt a revised approach to indexation*

The Community Sector Funding Rate should be replaced with a simpler approach, which gives a stronger assurance to the community sector that purchasing power will be maintained. We recommend providing regular, six-monthly increases. These should be in line with the higher of the consumer price index (CPI) or wage price index (WPI) for the ACT, or the percentage increase in wage rates applying to the Social, Community, Home Care and Disability Services Industry (SCHADS) Award. All project or short term contracts should also be indexed, if renewed. Indexation should be regularly reviewed to ensure it is fit for purpose, and that ad-hoc cost increases, such as increased superannuation payments, can be covered.

➤ *Recommendation 2: Review ACT funding streams to ensure full cost coverage*

Adjusting the indexation formula will not rectify the gaps which are 'baked in to' existing funding levels. Without boosting funding levels, under-resourcing will be perpetuated. Funding and contract duration should be sufficient to cover costs of:

- qualified staff recruited and retained at classification levels suited to job tasks
- professional development, supervision and other supports which develop quality and enable career progression

- reporting; administration; technology; innovation, planning and service improvement; auditing, legal and other necessary business activities and infrastructure;
- co-design and involving people with lived experience;
- advocacy, consultation and policy input; and
- evaluation.

The shift to a commissioning approach in the ACT is an important development and the full costs of adjusting to and participating in this new approach should be anticipated and covered.

➤ *Recommendation 3: Continue to encourage efficiencies, to reduce cost pressures*

The sector has faced significant pressure to find efficiencies whilst experiencing long-term underfunding. Capacity for further efficiencies appears limited. Strategies to stretch funds can only go so far; initiatives to address underlying issues and early intervention would be more effective. However, where efficiencies are possible, they may help relieve some cost pressures. Examples may include collectively negotiating discounted rates for services (e.g. insurance); longer contracts that reduce costs of retendering; and removing unnecessary red-tape or reporting requirements.

➤ *Recommendation 4: Build sector capacity to accurately cost services*

Building capacity to accurately cost services will help ensure any unfunded expenses are identified and accounted for. Smaller organisations are particularly likely to benefit from access to expertise to support accurate costings, and from sharing skills, processes and systems for costing services. Importantly, organisations need to signal the true costs of service delivery to government, including their overhead costs, and ensure these are reflected in funding applications.

Adjustments are needed to respond to rising demand

➤ *Recommendation 5: Boost funding for areas of unmet need*

Improving indexation, cost coverage, and costing capacity will have gradual impacts, but these do not address increased demand and increased complexity of service user cohorts. Funding boosts are needed to continue to: increase the scale of provision and address unmet need; restore intervention fidelity (e.g. where programs have been downscaled or delivered with reduced 'dosage' or fewer staff due to funding issues); and reduce waiting lists. Funding boosts could be directed to priority sub-sectors, or to specific organisations facing demand pressures. These should be based on close monitoring of changes in the community, and evidence of unmet need.

➤ *Recommendation 6: Prioritise early intervention and prevention*

The ACT should continue to prioritise early intervention and preventative models, recognising that responding to risks early reduces subsequent resource requirements and pressures.

Conclusion

The report attests to the commitment of the ACT Government and the community sector to work in fair partnerships to ensure clients and communities receive good quality services. However, too often, funds have not fully covered all that is required to meet needs. Financial pressures have accumulated, and organisations now juggle too many competing needs, and make too many compromises.

These challenges have impacted on how organisations do their work, and for some, their willingness to partner with the ACT Government.

Responding to the factors placing Canberra's service system under strain is an urgent priority. The sector has displayed commitment and creativity in supporting the Canberra community, and a desire to co-operate and work with government to ensure that services can be delivered efficiently, effectively and fairly. By partnering with the ISSG to fund this report and committing to commissioning and procurement reform, the ACT Government has demonstrated impressive initiative to understand and address these issues, recognising that decent funding arrangements and appropriate indexation are essential for addressing need in the ACT.

1. Introduction

The community services sector in the Australian Capital Territory (ACT) works in partnership with government and community members to improve health and social outcomes, and to advocate for, and meet the needs of, people experiencing disadvantage. The main ACT Government agencies which support the sector, the Community Services Directorate (CSD) and ACT Health Directorate (ACTHD), together fund over 250 services, delivered by over 100 organisations, while other Directorates also partner with community organisations and provide practical and financial support.¹ The community sector organisations engaged in the ACT are highly valued by government for delivering core government services², and for the social and economic contributions they make.³

In early 2021, the ACT's Community Services Industry Strategy Steering Group (ISSG), a sub-group of the Joint Community Government Reference Group (JCGRG), engaged the Social Policy Research Centre at UNSW Sydney to conduct research to help understand the true costs involved in delivering community services in the ACT, and to build evidence to ensure funding levels and arrangements are sufficient to fully respond to community needs. The ACT Government and community services sector have unique opportunities to address the issues raised, including by addressing additional funding needs, reviewing the Community Sector Funding Rate, and through a longer-term program of progressive reform centred on collaborative commissioning and monitoring wellbeing⁴.

Inevitably, assessing the adequacy of funding involves political judgments, about appropriate standards of support and levels of unmet need that government, and the community, will accept. These judgments are best informed by analysis of changes in levels of demand and expectations of services; how well organisations can cover essential costs in the current operating environment; and the impacts felt by communities and organisations where funding arrangements fail to meet the full costs of service delivery. Indeed, evidence presented in this report suggests that, where funding does not recognise true costs, there are risks for:

- *service users and communities*: such as unmet need, unstable service provision, suboptimal standards of quality and safety, and reduced wellbeing;
- *community service workers*: who may face truncated career paths, poor job security, inadequate pay, unsafe work practices, and limited access to professional development;

¹ ACT Government (2021) *Commissioning Roadmap For NGO Services in the Community 2021 – 2023*, v2.3 https://www.communityservices.act.gov.au/_data/assets/pdf_file/0006/1815189/ACTHDCSD-Commissioning-Roadmap-2021-2023.pdf. A smaller number of services are funded by other Directorates: Justice and Community Safety; Education; Environment and Sustainable Development; Chief Minister, Treasury and Economic Development; and Transport. Other services operate in the ACT, but may receive funds from the Australian government, commercial sources or philanthropy.

² ACT Government (2021) *ACT Budget Outlook*, https://www.treasury.act.gov.au/_data/assets/pdf_file/0008/1870136/2021-22-ACT-Budget-Outlook.pdf_page_56.

³ Economic contributions are evident from Australian Charities and Not-for-Profit Commission (ACNC) data. For example, the 217 charities based in the ACT who employed staff and delivered social and community services in 2019 together employed 7189 staff, drew on support from 27,460 volunteers and spent \$991.7 million. Annual Information Statement data downloaded from data.gov.au, October 2021.

⁴ ACT Government (2020) *ACT Wellbeing Framework* https://www.act.gov.au/_data/assets/pdf_file/0004/1498198/ACT-wellbeing-framework.pdf

- *community sector organisations*: who incur financial losses or stresses, operate with low financial reserves, find it difficult to meet industrial obligations and recruit skilled, qualified staff, and need to find ways to cross-subsidise underfunded services; and
- *government agencies*: who are impacted through suboptimal service delivery, strained partnerships, reduced access to sector expertise, weak public confidence, and increased pressure on more expensive tertiary systems (e.g. hospitals, child protection) when preventative efforts fail.

This report aims to provide evidence on strategies to avert and address these risks, and to help ensure that the contributions made by the ACT community sector are recognised, valued and sustained, and that the ACT government receives value for money. Appendix A provides information about methods, but briefly, the report draws on evidence from multiple sources including:

- the Service Costing Survey, completed by leaders of 88 community service organisations in the ACT (see Appendix B for a description of research participants)
- Initial sector interviews with three community organisations, to understand key issues and constraints and to inform the development of the survey of leaders
- Analysis of demographic and workforce changes in the ACT
- Analysis of relevant ACT Government spending, ACNC data, annual and financial reports, and community sector employment data for the ACT
- Consultations with key stakeholders
- Analysis of evidence-based research and policy documents
- Analysis of contract templates and funding policies provided by the ACT government.

Supplementary data is in Appendix C.

1.1 Background

The project contends with problems of underfunding, which are complex, long-standing concerns, evident within and beyond the ACT. Concerns about coverage of staffing, administration and infrastructure costs have arisen repeatedly in studies of Australia's community sector.⁵ The Industry Commission's 1995 Inquiry into charitable organisations⁶ recommended that government price setting for contracted services should take into account all cost components and overheads, including evaluation. In 2010, the Productivity Commission's landmark national report on the Contribution of the Not-for-Profit Sector⁷ noted persistent underfunding. It found that providers

⁵ See, for example Cortis, N. & Blaxland, M (2020) *The profile and pulse of the sector: Findings from the 2019 Australian Community Sector Survey*. Sydney: ACOSS https://www.acoss.org.au/wp-content/uploads/2020/03/2020-ACSS_final-3.pdf

⁶ Industry Commission (1995) *Charitable Organisations in Australia*, Report No. 45.

⁷ Productivity Commission (2010) *Contribution of the Not-for-Profit Sector*, Research Report, Canberra.

routinely reported that the costs of delivering contracted services were not fully covered by the governments contracting them.

Further, the Productivity Commission found that three quarters of government agencies admitted that in some funding programs they sought to *contribute* to organisations' costs, rather than fully cover them. The Productivity Commission noted negative attitudes in funding agencies towards spending on administration or overheads, and that these attitudes contributed both to poor understandings of costs, and to shortfalls in funding which accumulated over time. Overall, the Productivity Commission saw inadequate cost coverage to be holding the not-for-profit sector back, and recommended that cost estimates be "consistent, appropriate and comprehensive over all direct and indirect costs of the funded service or activity".⁸ Importantly, the Commission recognised costs are likely to vary across organisations, settings, and time. Plus, it noted that financial difficulties could compound over time, due to the accumulation of several minor instances of under-costing and underfunding, inadequate indexation, expanding requirements, and gradually increasing service standards.

In the ACT, cost coverage has been a longstanding concern for the community sector. In 2016, the State of the Community Service Sector in the ACT report⁹ found that among 166 organisational leaders, most were concerned about the adequacy of the government funding that their organisation received. Two thirds of organisational leaders (64%) reported that the ACT Government funding they received did not cover the true cost of delivering services, and 62% said funding levels did not enable the sector to meet levels of demand. More than half (54%) also expressed concerns that funding did not enable organisations to maintain suitable facilities or to purchase necessary capital, including vehicles and equipment. Half disagreed that funding enabled the organisation to pay staff at rates appropriate to their skills (50%) and many said inadequate funding caused difficulties recruiting, retaining, and developing staff.

These pressures have intensified. Organisations have responded in ways that place pressure on the workforce and volunteers. They have also incurred losses on ACT programs, and sometimes, have withdrawn from tendering for ACT programs. Addressing these pressures is an urgent priority. Doing so requires difficult, sensitive conversations between the sector and the ACT Government. As one leader of an ACT community sector organisation stated:

We have to have a safe place to talk about this. It is difficult to ask the hand that's feeding you, without being formally given the opportunity to do so.

This report is part of the process of providing a safe space for dialogue and adding evidence to help promote more adequate funding for community services in the ACT.

⁸ Productivity Commission (2010) *Contribution of the Not-for-Profit Sector, Research Report*, Canberra, page 282

⁹ Cortis, N. and Blaxland, M. (2016). *The State of the Community Service Sector in the Australian Capital Territory, 2016* (SPRC Report 19/16). Sydney: Social Policy Research Centre, UNSW Australia.
<https://www.actcoss.org.au/sites/default/files/public/publications/2016-report-state-of-the-community-service-sector-act.pdf>

2. Historical factors impacting on cost expectations

Historical factors have lowered community expectations about how much community services should cost to deliver, and how much governments should pay. These factors include gender-based undervaluation of community services work; under-appreciation of the need for overheads; competitive funding models; and assumptions that community organisations can supplement government funding.

2.1 Gender-based undervaluation

Expectations that community services have low costs arise from the historical undervaluation of the care and support work traditionally performed by women. Gendered assumptions about skill continue to undermine recognition of community sector work¹⁰. The 2010-12 Equal Remuneration Case for social and community services successfully demonstrated that gender-based undervaluation of work involving nurturing and care continues to be reflected in award wages. The decision led to increased government funding to ensure employers could pay the wage increases applying to services funded by government, including from the ACT Government, which provided supplementation and committed to incorporating increases into base funding rates. However, care and support work continue to be valued less than activities performed in other occupations requiring similar skills, and there are ongoing struggles to ensure that community services funding fully recognises the value and complexity of community services work.¹¹

2.2 Expectations of low overheads

Over 25 years, non-profits' administrative expenses have been pushed down,¹² driven by well-intentioned pressures for funds to be efficiently and effectively directed towards frontline activities; competition to lower overheads; and under-reporting of full costs by organisations.¹³ Misunderstanding of the importance of overheads, and falling expenditure on overheads, can fuel a 'starvation cycle'.¹⁴ This has been most notable in the US but also evident elsewhere. Cycles of lowering overheads are counterproductive if funders come to expect and resource unrealistically low overhead costs, and organisations restructure their operations in attempts to meet these

¹⁰ Meagher, G., & Cortis, N. (2010). *The social and community services sector in NSW: structure, workforce and pay equity issues*. University of Sydney. https://www.researchgate.net/publication/299451983_The_Social_and_Community_Services_Sector_in_NSW_Structure_Workforce_and_Pay_Equity_Issues

¹¹ Cortis, N. & Blaxland, M (2020) *Challenges for Australia's Community Sector: ERO supplementation, fair funding for fair pay*. Sydney: ACOSS. https://www.acoss.org.au/wp-content/uploads/2020/02/ERO_snapshot_2020.pdf

¹² Lecy, J. & Searing, E. (2015). Anatomy of the Nonprofit Starvation Cycle: An Analysis of Falling Overhead Ratios in the Nonprofit Sector. *Nonprofit and Voluntary Sector Quarterly*, 44(3), 539–563. <https://doi.org/10.1177/0899764014527175>

¹³ This may be because organisations lack expertise or have poor information about the costs of their activities, or because they wish to avoid seeming inefficient in a highly competitive environment. See Schubert P, Boenigk S. (2019) The Nonprofit Starvation Cycle: Empirical Evidence From a German Context. *Nonprofit and Voluntary Sector Quarterly*. 48(3):467-491. <https://doi.org/10.1177/0899764018824669>

¹⁴ While research literature usually explores the starvation cycle in the context of donor-dependent organisations, government funding can perpetuate similar dynamics. Lecy, J. & Searing, E. (2015). Anatomy of the Nonprofit Starvation Cycle: An Analysis of Falling Overhead Ratios in the Nonprofit Sector. *Nonprofit and Voluntary Sector Quarterly*, 44(3), 539–563. <https://doi.org/10.1177/0899764014527175>

unrealistic expectations. While intended to maximise efficiency, it starves organisations of essential funds, reducing capacity for innovation, efficiency and growth.

2.3 Competitive funding models

Outsourcing requires that services be specified as discrete, time limited projects or programs. This enables government to pay for specific ‘outputs’ or ‘outcomes’ rather than organisations’ full costs. Low budgets and competition to deliver services can spur a race to the bottom, as organisations seek to win funding by lowering costs. Tendering also has administrative costs for organisations, especially where applying is time consuming, funding is short term, and organisations are small.¹⁵ Contracting shifts these costs onto contracted providers. Consumer-based funding has also used principles of competition to contain costs, including for disability services funded under the NDIS.¹⁶

The ACT Government’s adoption of a commissioning approach aims to allow for longer and more flexible contracting.¹⁷ Compared with traditional contracting models, commissioning promises more co-operative and networked forms of government¹⁸, to create space to jointly determine need and responses. However, commissioning provides no implicit guarantee that issues of funding adequacy will be resolved; indeed, the approach could generate further costs for organisations.

2.4 Expectations that non-profits can cross-subsidise

Understandings of the full costs of community services have also been lowered by Government expectations that community sector organisations will have diverse revenue streams. It is thought that they can fill gaps in government funding using their own reserves, volunteers, or income from donors or commercial operations. Some services may indeed be able to cross-subsidise government services, and choose to do this to add value and defray shortfalls. However, these discretionary contributions cannot be assumed. Cross-subsidising or incurring losses on some programs are not possible for many, including for small, specialist organisations; those without access to philanthropy¹⁹, or those who cannot, for ethical or practical reasons, charge user fees. Indeed, the Service Costing Survey shows that receipt of private funding is low. Philanthropy and commercial income is received by less than half of organisations in the ACT (see Table C. 1).

¹⁵ Blaxland, M. and Cortis, N. (2021) *Valuing Australia’s Community Sector: Better Contracting for Capacity, Sustainability and Impact*. Australian Council of Social Service.

https://www.unswworks.unsw.edu.au/permalink/f/5gm2j3/unswworks_modsunsworks_76724

¹⁶ Under these arrangements, service funds are allocated to eligible care users, and organisations compete to attract them, including on the basis for price. Individualised funding has been found to entrench low pay, promote casualisation and fragmented working time arrangements, and exacerbate difficulties attracting and retaining staff. See: Joint Standing Committee on the National Disability Insurance Scheme (2020) *NDIS Workforce Interim Report*, Parliament of Australia, https://parlinfo.aph.gov.au/parlInfo/download/committees/reportint/024501/toc_pdf/NDISWorkforceInterimReport.pdf;fileType=application%2Fpdf; Cortis, N., Macdonald, F., Davidson, B., and Bentham, E. (2017). *Reasonable, necessary and valued: Pricing disability services for quality support and decent jobs* (SPRC Report 10/17). Sydney: Social Policy Research Centre, UNSW Sydney. Productivity Commission (2017) National Disability Insurance Scheme (NDIS) Costs, <https://www.pc.gov.au/inquiries/completed/ndis-costs/report/ndis-costs.pdf>

¹⁷ ACT Government (2021) *Commissioning Roadmap For NGO Services in the Community 2021 – 2023*, v2.3 https://www.communityservices.act.gov.au/_data/assets/pdf_file/0006/1815189/ACTHDCSD-Commissioning-Roadmap-2021-2023.pdf

¹⁸ Sturgess, G. (2018) Public service commissioning: Origins, influences, and characteristics. *Policy Design and Practice*, 1(3):155-168.

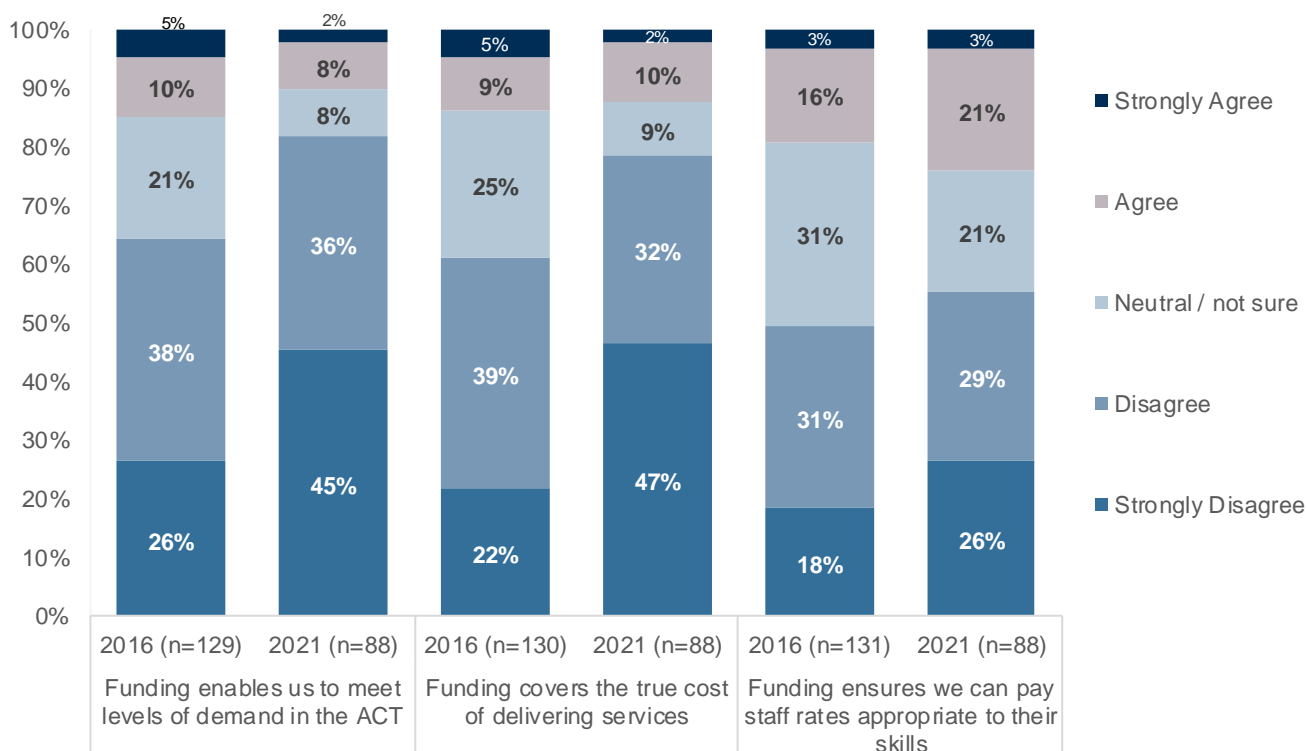
¹⁹ Cortis, N. (2017) Access to philanthropic and commercial income among nonprofit community service organisations. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 28, 798-821. DOI: 10.1177/0899764018815619

3. Increases in resource pressures since 2016

Resource pressures in the ACT community services sector have grown in recent years. Figure 3.1 shows community organisations are feeling less well supported by their ACT government funding than in 2016.²⁰ Compared with 2016, in 2021:

- larger proportions of organisational leaders strongly disagreed with the statement “Funding enables us to meet levels of demand in the ACT” (45% in 2021 compared with 26% in 2016).
- the proportion of leaders who strongly disagreed with the statement “Funding covers the true cost of delivering services” rose from 22% in 2016 to 47% in 2021.
- There were smaller changes in agreement with the statement “Funding ensures we can pay staff rates appropriate to their skills”: 26% of leaders strongly disagreed with the statement in 2021 compared with 18% in 2016, although agreement also rose (24% compared with 19%).

Figure 3.1 Perceptions of ACT funding adequacy, 2016 and 2021



Source: ACT Service Costing Survey, 2021

²⁰ Comparison is between 2021 and 2016 because 2016 was the last time this information was collected from ACT organisations, see Cortis, N. and Blaxland, M. (2016). *The State of the Community Service Sector in the Australian Capital Territory, 2016* (SPRC Report 19/16). Sydney: Social Policy Research Centre, UNSW Australia. <https://www.actcoss.org.au/sites/default/files/public/publications/2016-report-state-of-the-community-service-sector-act.pdf>. Note that in both years, questions were asked generally, and not in relation to a specific ACT funding allocation.

Actual government spending on the community sector has fluctuated²¹, and changes in how funding is organised²² make it difficult to clearly assess adequacy and per capita spending. However, comments from CEOs indicate program funding in the ACT has not kept pace with increased service requirements and costs. In the 2021 Service Costing Survey, leaders highlighted poor cost coverage. Many reported that they were supplementing ACT programs with other funds, for example:

The funds provided by the ACT Government are a small proportion of the cost of delivering the services provided to the Canberra community.

We are inadequately funded to do our core duties. We supplement our income with project funding and external consultancies. However, we would not be able to do our core business adequately just with our core funding.

Some indicated this situation has resulted from years without adequate increases, at a time of growing need:

We have had next to no rise in funding/outputs in at least 10 years and yet the community size has grown and aged in this period which has meant there is a greater need for services.

Circumstances were seen to be taking a toll on workers, and contributing to turnover (which also creates costs for organisations)”

Our team have worked hard to offer a quality service and are a trusted provider. We now get more requests than we can fulfil and that makes it so difficult because the team stretch themselves to meet the need. It’s not sustainable and we have high turnover.

The next sections delve deeper, to focus separately on these two sources of resource pressures in the ACT: increased demand and complexity of need in service user cohorts (Section 4), and pressures from rising costs (Section 5).

²¹ For information on Community Services Directorate spending on grants and purchased services over the last five years, see

Table C. 2.

²² For example, program responsibility moves across government agencies; responsibilities shift between levels of government, and delivery may shift between the community sector and government.

4. A closer look at demand pressures in the ACT

This section provides evidence on drivers of rising demand in the ACT, which include population growth, changes in complexity and need, and increasing levels of demand associated with rising living costs and the COVID-19 pandemic.

4.1 Population growth

A growing, ageing, and increasingly diverse and dispersed population raises demand and increases the costs of servicing the ACT community. Population growth in the ACT was 0.8% in the year to December 2020, representing growth of 3200 people. The population is increasingly dispersed, including in new outer suburbs in Canberra's north and west, and the median age is projected to gradually rise²³. The ACT's rate of population growth was higher than the rate of growth across Australia (0.5%).²⁴ While 2021 Census data is not yet available, earlier information indicates the ACT's population has become more diverse. The ACT's Aboriginal and Torres Strait Islander population is projected to be the fastest growing of all states and territories. From 2006 to 2016 the Census count of the Aboriginal and Torres Strait Islander population increased from 1.3% of the ACT population to 1.8%, and the ABS projects further growth of between 2.6% and 2.9% per year²⁵. There has also been an increase in cultural diversity: in 2016, 26.5% of the population were born overseas; up from 24% in 2011, and in 2016, 24% of ACT residents aged five and over indicated that they spoke a language other than English at home, up from 18% in 2011.²⁶

4.2 COVID-19 and increased support needs

Poverty, financial stress, and housing pressures contribute to service demand, complexity of need, and costs. In 2020, the number of people looking for work in the ACT increased, triggered by job losses in the first wave of the COVID-19 pandemic. Unfortunately, at the time the 2021 lockdown commenced in Canberra on 12 August 2021, numbers had not returned to pre-pandemic levels. More recently, and only part-way through the Delta wave, 61,000 people in the ACT had received at least one COVID disaster payment, indicating further accumulation of financial hardship.²⁷

Information from the Department of Social Services shows a spike in the number of people receiving the main income support payments in the ACT during the pandemic (see Figure C. 1). In 2020, numbers receiving Jobseeker payment, Parenting Payment (single) and Youth Allowance

²³ ACT Government (2019) *ACT Population Projections, 2018 to 2058*.

https://apps.treasury.act.gov.au/_data/assets/pdf_file/0005/1305581/ACT-Population-Projections-Paper-FINAL.pdf

²⁴ ABS (2021) *National, State and Territory Population*, December 2020.

<https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release#states-and-territories>

²⁵ In the years from 2016 and 2031. ABS (2019) *Estimates and Projections, Aboriginal and Torres Strait Islander Australians*. <https://www.abs.gov.au/statistics/people/aboriginal-and-torres-strait-islander-peoples/estimates-and-projections-aboriginal-and-torres-strait-islander-australians/2006-2031>

²⁶ https://www.communityservices.act.gov.au/_data/assets/pdf_file/0004/1282810/ACT-Multicultural-Community-Profile-2016.pdf

²⁷ As of 20 September 2021. Australian Government, *Operation COVID Shield COVID-19 Vaccine Roll-out*, 20 September 2021, <https://www.health.gov.au/sites/default/files/documents/2021/09/covid-19-vaccine-rollout-update-20-september-2021.pdf>

increased dramatically, and numbers had not returned to 2019 levels before the 2021 lockdown in the ACT.

Moreover, in 2021, many Canberrans missed out on the pandemic support they required in the absence of the Coronavirus supplement, which had temporarily raised some income support payments above the poverty line during 2020. It has been estimated that, as of September 2021, the number of people in the income support payment categories that were previously eligible for the Coronavirus supplement was greater than 17,000.²⁸

4.3 Rising living costs and financial stress

Rising living costs for low-income families contribute to demand for support from the community sector. The 2021 *ACT Cost of Living report*²⁹ showed that in both the previous year, and in the previous five years, the CPI rose at a higher rate in Canberra than nationally. Rising prices of essential goods and services including electricity, gas, health, education, housing and food, contribute to need in vulnerable households. Increases in non-discretionary, essential goods increased faster than others, disproportionately impacting low-income households, and contributing to intensified need through the 2021 lockdown period.

Prior to the pandemic, there was already evidence of high levels of financial pressure on the ACT population. The ABS Household Expenditure Survey indicated 10.2% of people were unable to raise \$2000 in a week for something important; 13.9% could only afford second-hand clothes most of the time, 12.4% could not afford a special meal once a week; 12.5% could not afford leisure or hobby activities; and 12.2% could not afford a holiday for at least a week a year. 6.1% could not pay utilities bills on time, and 6% sought assistance from welfare/community organisations due to financial stress.³⁰ These pressures on households were highlighted by the pandemic and are likely to have increased, exacerbating support needs in the ACT community.

4.4 Housing pressures and unmet need

There is a lack of affordable housing in Canberra which increases the support needs of low-income people with complex needs. As of 4 October 2021, there were 2965 applications on the social housing waiting list. The average waiting time was 339 days for priority housing, 927 days for high needs housing, and 1472 days for standard housing.³¹ The Productivity Commission Report on Government Services indicates that in the ACT, 35.6% of clients with identified need for accommodation were not provided with that service in 2019-20.³² In previous years, Canberra has also seen an expansion in insecure accommodation such as boarding houses. The number of people living in boarding houses increased from 0.2 per 10,000 to 2.4 per 10,000 from 2011 to 2016.

²⁸ This is calculated based on electorate based interactive data maps provided by the ACOSS-UNSW *Poverty and Inequality Partnership* at https://povertyandinequality.acoss.org.au/covid_maps-2/. Figures for the three electorates were: 6092 (Fenner), 5111 (Bean) and 6111 (Canberra).

²⁹ <https://www.actcoss.org.au/sites/default/files/public/publications/2021-report-ACT-Cost-of-Living.pdf>

³⁰ ABS (2017) *Household Expenditure Survey, Australia: Summary of Results, 2015-16*.

³¹ ACT Community Services (2021) *Waiting Lists*, 4 October 2021

https://www.communityservices.act.gov.au/hcs/services/social_housing/waiting_lists

³² Productivity Commission (2021) *Report on Government Services*, Table 19A.2

Low-income private renters pay high rents and experience rental stress. This was briefly alleviated in 2020 when the coronavirus supplement temporarily increased rates of income support.³³ The Productivity Commission indicates that in the ACT, the proportion of low-income private rental households paying more than 30 per cent of income on housing costs is high relative to other jurisdictions.³⁴

Unmet need for secure affordable housing has implications for homelessness. Homelessness services report that recurrent costs per client increased by 35%, from \$4588 in 2015-16 to \$6196 in 2019-20.³⁵ In the same period, ACT government total recurrent real expenditure on homelessness services increased only 20%.³⁶ In the same period, the proportion of clients with unmet needs (i.e., those who were not provided a service nor referred) multiplied 5 times over - from 2.7% to 13.5% in the ACT.³⁷ Unmet need rose faster for Aboriginal and Torres Strait Islander clients and is especially high among people born outside the main English speaking countries. Together, these housing pressures contribute to levels of population need, the complexity of circumstances of people when they present to services and increasing costs for community services and supports. The ACT Government's recent commitment of additional funding³⁸ to address homelessness can be expected to help alleviate these pressures.

4.5 Growing mental health needs

Use of mental health services in the ACT has grown over the last decade and needs are expected to remain high. However, funding has not kept pace. Productivity Commission data reports that from 2009-10 to 2018-19, numbers of people receiving mental health services more than doubled from 18,871 to 40,175, an increase from 4.5% to 9.5% of the population.³⁹ AIHW data also shows increased demand: the number of contacts with mental health services by clients increased from around 223,000 in 2008-09 to 318,000 in 2018-19.⁴⁰

In the same period, total recurrent expenditure on specialised mental health services by the ACT grew from \$82.6 million to \$121.5 million, with the share to NGOs doubling from \$9.5 million to

³³ Anglicare (2021) Anglicare Research: *Rental Affordability forcing more Canberrans into financial hardship*, 29 April. <https://www.anglicare.com.au/anglicare-research-rental-affordability-forcing-more-canberrans-into-financial-hardship/>

³⁴ Productivity Commission (2021) *Report on Government Services*, ROGS Table GA.3, cited in ACTCOSS (2021) 2021 ACT Cost of Living Report, p14. <https://www.actcoss.org.au/sites/default/files/public/publications/2021-report-ACT-Cost-of-Living.pdf>

³⁵ Productivity Commission (2021) *Report on Government Services*, ROGS Table 19A.18. <https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/housing-and-homelessness/homelessness-services>

³⁶ Productivity Commission (2021) *Report on Government Services*, ROGS Table 19A.1. <https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/housing-and-homelessness/homelessness-services>

³⁷ Unmet need among Aboriginal and Torres Strait Islander clients increased from 2.1% to 11.6%. For clients born outside the main English speaking countries, unmet need rose from 4% to 15%. Productivity Commission (2021) *Report on Government Services*, ROGS Tables 19A.11. <https://www.pc.gov.au/research/ongoing/report-on-government-services/2021/housing-and-homelessness/homelessness-services>

³⁸ See Media release, Andrew Barr MLA, <https://www.cmtedd.act.gov.au/open-government/inform/act-government-media-releases/barr/2021/expanding-homelessness-and-housing-services>

³⁹ Productivity Commission, *Report on Government Services*, 2021, Services for Mental Health, Table 13A.7.

⁴⁰ AIHW (2021) *Mental Health Services in Australia*, web report, Community mental health care services 2018-19, <https://www.aihw.gov.au/reports/mental-health-services/mental-health-services-in-australia/report-contents/community-mental-health-care-services>

\$18.9 million from 2019-10 to 2014-15, then falling (see Figure C. 2)⁴¹. While there has been some growth in total government expenditure on mental health services, neither the amount nor the proportion spent on NGOs have kept pace with rising levels of demand. And mental health needs have since escalated further through the pandemic, especially for children, young people and parents.⁴² These pressures are felt by organisations, who report seeing mental health needs rising, both due to population changes, but also behavioural changes (particularly among young people) and increases in help-seeking.

4.6 Complex need among children and families

ACT children and families have complex needs. The proportion of ACT children starting school without the skills they need to thrive has increased, and ACT children are falling below the national average. AEDC data⁴³ shows that despite relatively high incomes of ACT families, in 2015, the proportion of ACT children in the first year of school who were vulnerable on 1 and 2 domains was close to the national average, however by 2018, 25% were vulnerable on two measures, compared with 22% nationally (see Figure C. 3). This points to growing support needs among children and families, in the years before school and beyond, which are likely to impact on community service demand.

Demand pressures are also evident in child protection: numbers of children involved in the child protection system rose from 2000 to 2245 from 2016-7 to 2019-20 (an increase of 12% increase). In the ACT, there are very high rates of child protection involvement among Aboriginal children: 190 per 1000 Aboriginal children, which is 11.5 times the rate for non-Indigenous children (16.5 per 1000). This is high by national standards. Correspondingly, the ACT has very high rates of Aboriginal children in out of home care.⁴⁴

Rising pressures on organisations delivery services to children and families have also been noted by the ACT Government. An internal review of costs in ACT's Child, Youth and Family Services Program for 2019-20 noted, for example, trends of increasing levels of need in families, increased service utilisation, long waiting lists, higher costs per family, and increased complexity, associated with mental health issues faced by families and cultural diversity.⁴⁵ In addition, the Community Services Directorate noted reports of increased travel expenses for child, youth and family services (along with other services), in line with the expansion of Canberra. They also noted ageing

⁴¹ The proportion of total spending going to NGOs fell from a high of 18.1% (2013-14) to 11.5% (2018-19), see Figure C. 2.

⁴² See, for example, Batchelor, S., Soyakov, S., Pirkis, J. and Kölves, K. (2021) Use of Kids Helpline by Children and Young People in Australia During the COVID-19 Pandemic, *Journal of Adolescent Health*, 68 (6): 1067-1074. <https://doi.org/10.1016/j.jadohealth.2021.03.015>; Westrupp, E., Bennett, C., Berkowitz, T. et al (2021) Child, parent, and family mental health and functioning in Australia during COVID-19: comparison to pre-pandemic data. *European Child and Adolescent Psychiatry*, <https://doi.org/10.1007/s00787-021-01861-z>. Biddle, N., Edwards, B., Gray, M. and Sollis, K. (2021) *The impact of COVID-19 on child mental health and service barriers: The perspective of parents* – August 2021 ANU Centre for Social Research and Methods. https://csrcm.cass.anu.edu.au/sites/default/files/docs/2021/9/Child_wellbeing_-_August_2021.pdf

⁴³ AEDC captures the proportion described as 'developmentally vulnerable' in physical, social, emotional, language and communication domains.

⁴⁴ AIHW (2021) *Child protection 2019-20*, see Table S2.3 and S5.5, <https://www.aihw.gov.au/reports/child-protection/child-protection-australia-2019-20/data>

⁴⁵ Community Services Directorate (undated) *Increasing Costs Overview*, Child, Youth and Family Services Program, internal document.

infrastructure including information, communication and technology (ICT), increased childcare costs, and increasing use of volunteers.

A leader's account of rising demand

“With COVID, fires, floods there are more demands than ever on the NGO sector. Teams run on skeletal staffing are doing additional hours and we risk burn out in the sector. The sector staff are expected to provide services to some of our most marginalised disadvantaged groups in the regional area yet to be able to cope and stay on top of the demands. There is a lack of affordable housing, increased rates of DFV, mental health issues have ballooned, and youth crime rates have increased, yet there is no addition to services to reduce the pressures clients face.”

5. A closer look at cost pressures in the ACT

As well as confronting increasing demand, the community sector in the ACT has experienced cost pressures. This section outlines drivers of increased costs in the ACT, drawing on official documents and datasets, and information from organisational leaders and workers.

5.1 Employment and wages costs

Employing staff is the main cost for most community service organisations. Increases in employment costs that are not adequately covered by funding has resulted in cost pressures for organisations. ABS employment data attests to rising costs. Across the ACT, the value of total wages grew by 3.9% from March 2020 to March 2021, higher than the national average (3.1%).⁴⁶ Participants in the interviews, consultations and the survey reported that in the ACT, the sector is competing for staff because of the higher wages on offer in the public sector. Data supports this: information from the ABS indicates public service incomes were around 25% higher than earnings in the private sector (which includes the not-for-profit sector).⁴⁷

Pay rates for workers in the social and community services industry have gradually increased over the last decade, as a result of minimum wage increases (which usually apply each July) and the Equal Remuneration Order (ERO) which has provided Transitional Equal Remuneration Payments in 9 instalments each year on 1 December, from 2012 to 2020.⁴⁸ Figure C. 4 shows the way increases in hourly pay rates have created a less compressed wage structure, improving opportunities for pay progression. While ACT Agencies have made supplementary payments to cover the increased costs of the ERO and committed to incorporating increases into base wage rates, some sector leaders have observed this has not been sufficient to fully cover the higher costs, or to meet other increased costs associated with employment (see Section 5.2 for more on sector experiences with employment costs, and Section 6.1 on the way indexation has not met annual wage increases).

In addition to increases in base wage rates, wage on-costs are increasing. Employer-funded superannuation payments were required to increase from 9.5% in 2020–21 to 10% for 2021–22. A further increase is scheduled for 1 July 2022, when the payment will increase to 10.5%. In addition, the recent Federal Government decision to remove the \$450 per month wage threshold will expand requirements for employers to make superannuation guarantee payments to eligible staff, regardless of their monthly pay. This will expand compulsory superannuation payments, especially for organisations with high numbers of low-paid part-time staff who may previously have been ineligible. Employers must also contribute under the ACT's Portable Long Service Leave scheme, to which employers contribute 1.6% of gross ordinary wages. The ACT's Secure Local

⁴⁶ ABS (2021) *Weekly Payroll Jobs and Wages in Australia*, <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/weekly-payroll-jobs-and-wages-australia/week-ending-22-may-2021#state-and-territory>

⁴⁷ Full time adult total earnings in the public sector were \$2125, on average, compared with \$1693 in the private sector (which includes the not-for-profit sector). See ABS (2021) *Average Weekly Earnings, Australia*, November 2020. Given the feminisation of the community sector, it is also relevant that the ACT has the highest female earnings in the country: \$1821, average weekly ordinary time earnings (all industries), compared with \$1575.50 nationally.

⁴⁸ Fair Work Australia (2012) Equal Remuneration Order, See <https://www.fwc.gov.au/documents/awardsandorders/html/pr525485.htm>

Jobs policy requires high ethical and labour standards throughout supply chains, which removes capacity of organisations to engage low-cost contractors.

Within the community service sector, rapid growth and skills shortages are evident. ABS data indicates that the number of people employed in the ACT health care and social assistance industry grew by over 15% from 2016 to 2021.⁴⁹ Within it, the mental health workforce grew rapidly, but not as quickly as the growth in people using mental health services.⁵⁰ National Skills Commission 'Nowcast' data shows remarkably rapid growth in some community service occupations in the ACT.⁵¹ In the five years to October 2021:

- The number of people employed as aged and disabled carers grew by 161% in the ACT, compared with 55% nationally.
- Numbers of nursing support and personal carers grew 136%, while falling 5% nationally.
- Numbers of special care workers (which includes the out of home care workforce) increased 185% in the ACT, compared with 19% nationally.⁵²

When demand for skills grows so rapidly, it typically becomes more difficult to recruit staff with appropriate skills. Indeed, Australian Government vacancy information attests to rising vacancies in the ACT for legal, social and welfare professionals, along with carers and aides, and health and welfare support workers (see Figure C. 5). This can result in rising wages costs as organisations attempt to attract skilled staff.

ACNC data attests to rising employment expenses among charities in the ACT (see Table C. 3). Charities' average expenditure on employees rose from 61% of total expenses to 64%.⁵³ The median figure also rose, from 64% to 67%. The majority of organisations (61%) experienced increases in the proportion of their total expenditure spent on employees in this period. Growth was by more than 5 percentage points for one third (33%) of relevant ACT charities for which 2015 and 2019 ACNC data was available.⁵⁴

5.2 Sector experiences of employment cost pressures

In the 2021 Service Costing Survey, community sector leaders reported that ACT funding is not fully covering their employment costs, nor recognising increasing costs.⁵⁵ As Figure 5.1 shows, few organisations reported adequate funding for:

⁴⁹ ABS (2021) *ABS Labour Force Region – SA4 data*, <https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release>
<https://lmip.gov.au/default.aspx?LMIP/Downloads/ABSLabourForceRegion>

⁵⁰ Productivity Commission (2021) *Report on Government Services*, Table 13A.12.

⁵¹ See National Skills Commission (2021) *Nowcast of Employment by Region and Occupation, (NERO)*
<https://www.nationalskillscommission.gov.au/our-work/nero>

⁵² In addition, social workers grew 66% compared with 24% nationally, and welfare support workers grew by 46% compared with 27% nationally. See National Skills Commission (2021) *Nowcast of Employment by Region and Occupation, (NERO)* <https://www.nationalskillscommission.gov.au/our-work/nero>

⁵³ Analysis involved identifying 105 relevant community service charities operating in the ACT in 2019, based on their ACNC Annual Information Statements. Of these, 88 also provided Annual Information Statements in 2015, and this information was used to compare expenditure on employees as a proportion of each organisation's total expenditure.

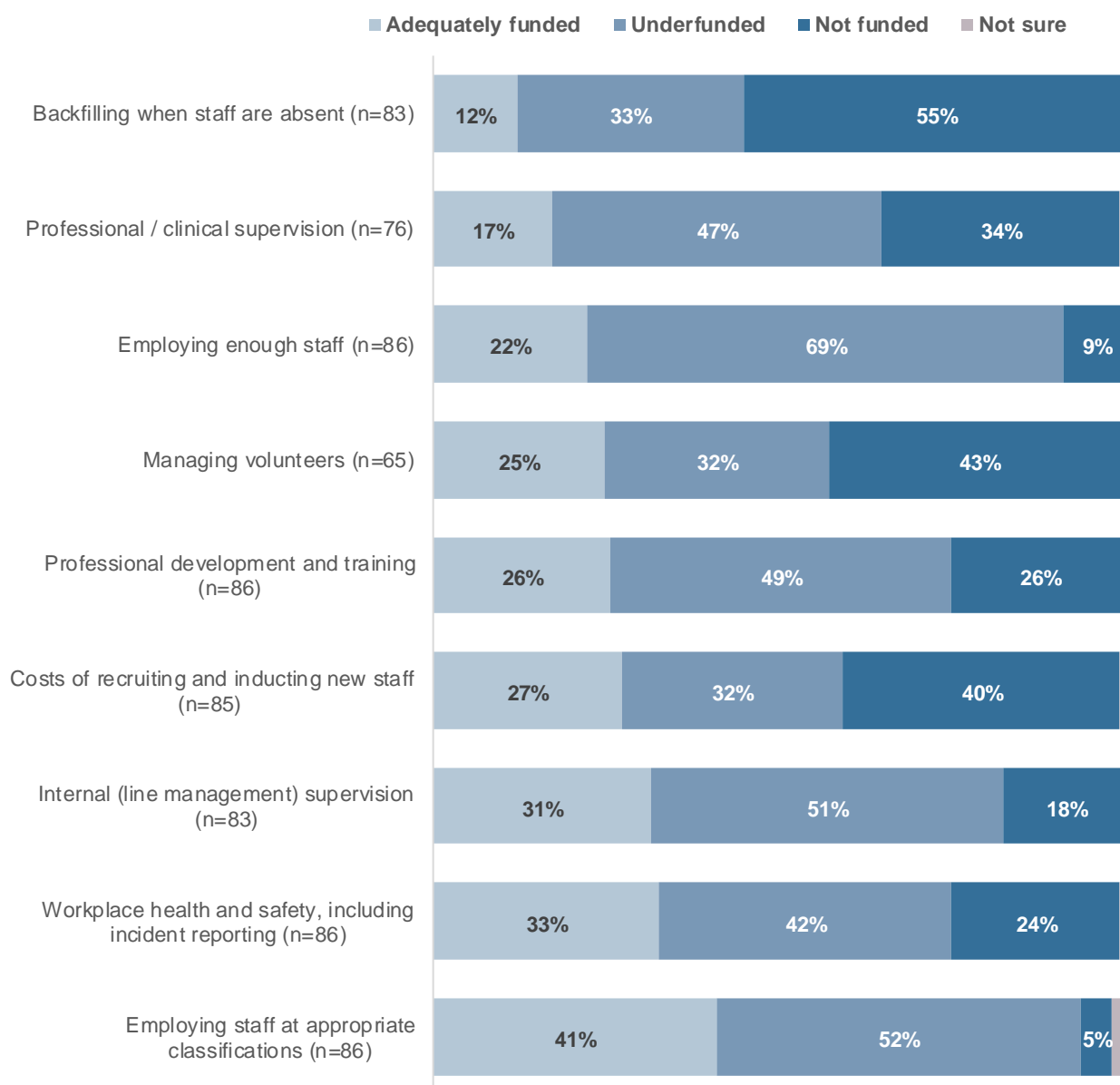
⁵⁴ Of the 88 relevant ACT Charities who provided Annual Information Statements to the ACNC in both 2015 and 2019, 29 had experienced growth in expenditure on employees of over 5 percentage points in the period.

⁵⁵ This survey question was asked only where service leaders indicated the ACT funding they received was used to employ staff.

- Backfilling (12%)
- Supervision (17%)
- Employing enough staff (22%)
- Managing volunteers (25%)
- Professional development (26%)
- Recruitment and induction (27%)

Comments from leaders and workers corroborate these challenges. Examples of leaders' perspectives, also captured in the Service Costing survey, are organised around key themes and shown in Table 5.1.

Figure 5.1 Perspectives on coverage of employment-related costs



Source: ACT Service Costing Survey, 2021. Detail for funding received from Community Services Directorate and Health Directorate is in Table C. 6 and Table C. 7.

Table 5.1 Leaders' comments on employment costs

Issue	Comment from leader
Poor resourcing of employment costs is reducing capacity	<p>We are severely underfunded - at half the level of a sister peak body doing the same type of work. This means we can only afford to employ 2 part-time staff.</p> <p>Industry average is around 15-25% for everything that is not staff wages (administration, car, phone, IT, training, supervision, recruitment, fees, insurance, quality assurance & compliance) however typically wages are now more than 80% of all costs, meaning cuts have to be made into this list, affecting quality, training and staff support.</p>
Organisations are having to choose between meeting demand and covering staffing costs	<p>The increased needs of our clients means the funds are absorbed in trying to ensure clients are catered for with their needs. The costs to provide things like clinical supervision are an expense that is unaffordable to our org. Also being able to backfill staff costs are outside our scope with all current funding.</p> <p>Inadequate funding of essential services like ours, places management and the Board in a no-win position of needing to run down any savings to maintain staff to meet demand and eventually fold; or reducing services now to stay within the funding envelope even if it means turning away people in incredible need.</p>
Despite the ERO, community sector pay remains below the public sector	<p>We get some ERO but that does not cover all wages (it is calculated on staffing from approximately 8 years ago). Even at the current state of the award it is still significantly less than what equivalent staff in the public sector earn and there are none of the perks around increasing superannuation etc that are delivered in the public sector. The salary sacrificing agreements increase take home wages to a degree but most staff in the public sector in health are also entitled to similar agreements, so we're just as far behind.</p> <p>Recruiting skilled and qualified staff is also difficult when competing for candidates with the better compensated public service roles available.</p>
Expanding staff numbers requires administrative capacity	<p>We are in the position where, even if we received more money for a project, we would have to think very carefully about accepting the money because we do not have the administrative capacity to manage additional staff and to responsibly carry out the functions of supervision, WHS etc. of a larger team. It's a real catch-22 situation.</p>
Using volunteers incurs costs	<p>The costs of managing volunteers is high and completely unfunded. These costs are not just in management of people, they also need access to professional development, supervision, workplace health and safety etc.</p>
Costs of improved employment regulation need to be covered	<p>All government funding ignores the true cost employing staff and of back office and management including NDIS pricing and Home Care Packages. Government employees state things like "you should only employ on fixed term contracts to avoid redundancy if funding ceases" which is a breach of employment law. Someone on rolling 3 year contracts is classed as ongoing and is eligible for a redundancy if the contract finally ceases.</p> <p>The Government frequently imposes additional regulation and compliance eg Secure Jobs Legislation, without recognition that there is a cost to comply.</p>

Source: ACT Service Costing Survey, 2021

Key informants from the ACT training sector corroborated the issues raised by leaders. They observed that non-profits typically have small budgets for professional development, and this was sometimes shared in a budget line with supervision. It is considered relatively rare for non-profits to pay for staff to obtain qualifications, although support for nonaccredited training is more common, and sometimes directly provided by larger organisations or peak bodies.

Workers also corroborated leaders' perspectives. They outlined that:

- funding shortfalls in the sector have been widespread for many years, impacting on employment conditions and workloads, and on service delivery to clients.

- Underfunding makes it difficult to attract staff, pushes staff onto fixed-term contracts, and has led to cuts in training budgets.
- Underfunding contributes to retention difficulties and staff turnover, resulting from stress and movement away from frontline work to progress careers. This cycle contributes to lack of consistency for clients.
- Workers feel particularly stretched when sick or absent colleagues leave gaps in services. One worker described the experience of asking the CEO to hire relief workers to cover absences, but were told they did not have money. Frustratingly, they asked staff if they had any ideas about what to do, rather than taking it up at management and board level, and engaging proactively with government.
- Workers also bear witness to inequities in pay for similar work; expectations of goodwill to do unpaid work; lack of overtime payments; undervaluation of client-facing roles; lack of funds for expert or specialised positions; and low prioritisation of workplace health and safety.

5.3 Advocacy, access and engagement costs

Advocacy, access and engagement costs are also rising. In the Service Costing survey, only a small minority of respondents considered funding was adequate for these essential activities.

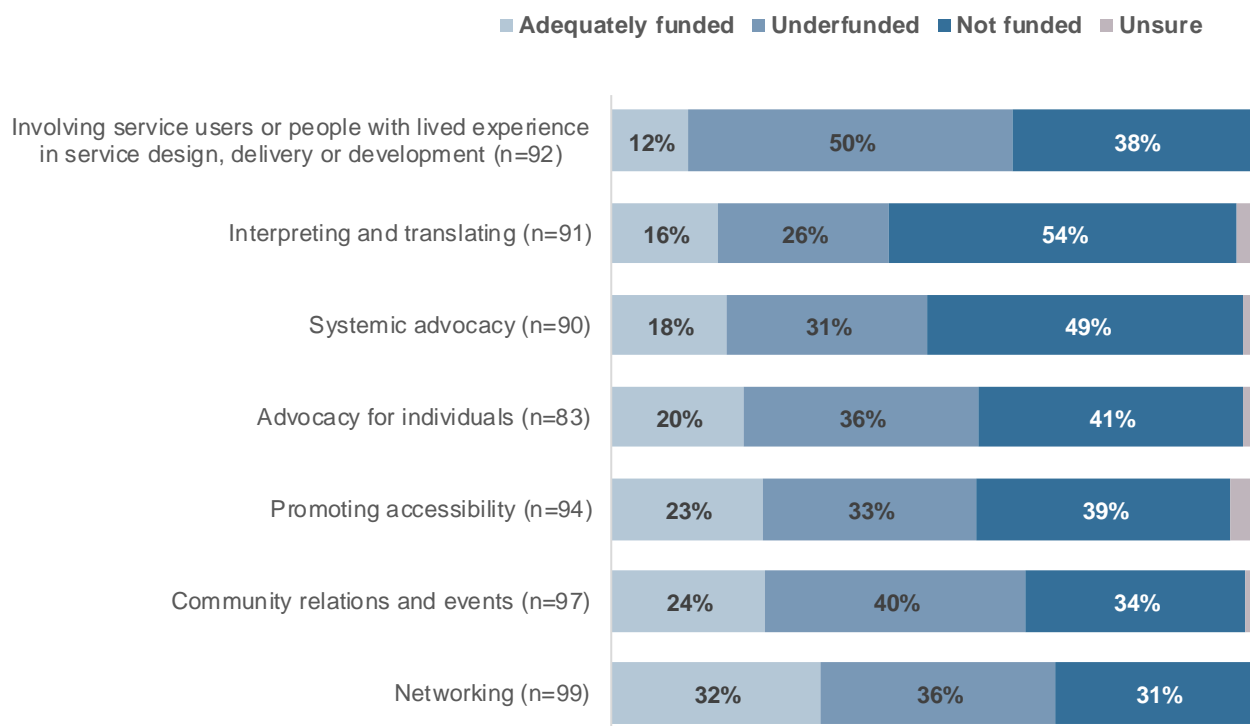
Figure 5.2 shows that:

- Only 12% of leaders reported that their ACT funding adequately covered involving service users or people with lived experience in service design, delivery or development. However, lived experience is recognised as best practice nationally and internationally, and the ACT Government is committed to engaging people with lived experience in service planning, design and delivery.⁵⁶ Additionally, the lived experience workforce is rapidly growing and professionalising⁵⁷.
- Organisations find their advocacy roles are essential but only 18% said systemic advocacy was adequately funded, and 20% said individual advocacy was adequately funded.
- Few are funded adequately to promote accessibility (23%), or to support interpreting and translation (16%).
- Only a minority of leaders say their community relations and events (24%), and networking activities (32%) are adequately funded.

⁵⁶ See, for example, ACT Government (undated) Commissioning for Outcomes, <https://www.communityservices.act.gov.au/commissioning>

⁵⁷ Roennfeldt, H. and Byrne, L. (2021), Skin in the game: The professionalization of lived experience roles in mental health. *International Journal of Mental Health Nursing*, 30: 1445-1455. <https://doi.org/10.1111/inm.12898>

Figure 5.2 Perspectives on coverage of advocacy, access and engagement costs



Source: ACT Service Costing Survey, 2021

Leaders maintained that these activities need to be more visible as essential elements of their organisations’ work, and should be recognised in contracts and funded appropriately, to ensure opportunities are available to network, exchange information and develop collaborations and consortia. As shown in Table 5.2, leaders also noted rising demands for policy input requiring staff time.

Table 5.2 Leaders’ comments on costs of advocacy, access and engagement

Issue	Comment from leader
Advocacy activities are non-negotiable	We often find ourselves having to do individual advocacy as individuals approach us and we cannot simply turn them away. We must help link them to an appropriate service.
Funding impacts on capacity, including capacity to consult with government	The lack of growth and proper indexation impacts on our ability to participate in our sector, advocate, attend required network meetings and ensure good governance across the organisation. Government underfunding prevents us from responding to government consultations.
Contributions to government are expected but not funded	We are continually asked to comment on law reform, policy changes, bills for government etc etc..... They take a lot of time and we provide these with a basis of lived experience so we consult our service users. On average there is probably 2 to 3 per month that we are asked to make comment on or address in some way.... We are continually asked to join reference groups on important issues and we need to represent our communities on these groups. There is becoming more and more expectation for us to be involved in many intergovernmental committees/forums and yet there is no funding attached to this work. The volume of reports that get delivered to us to read prior to a meeting on top of the work we have to do in our own organisations is phenomenal. In addition, it is nothing to be called into a 'vital' meeting relating to our sector with only days notice

Issue	Comment from leader
	but no respect is given for our workloads or timetables to work things around. It's a case of 'they say jump, and we have to say 'how high' in order to ensure the community continues to receive the support it deserves.
Some of costs of collaboration and engagement may increase in the shift to a commissioning approach	Although there has been some good communication about the Government's plan regarding commissioning, and their desire to have us involved in those collaborations / consultations etc, it is in fact those processes/activities that aren't funded to allow people to participate in co-design and continue to deliver the services contracted. In the end senior staff have to make it happen and work longer hours. There is little room for business/service design that would benefit organisations, government procurement and most importantly community need.

Source: ACT Service Costing Survey, 2021

5.4 Business overheads and infrastructure costs

Assessing adequacy of overhead, administrative or infrastructure spending is difficult given the diversity of the sector (including service types, models and sizes), and that there is no 'one size fits all' standard or benchmark percentage. The ACNC notes that some charities incur a range of costs which cannot be easily isolated from services in order to be considered 'administration' or overheads.⁵⁸ That is, there is no clear distinction between essential service-related costs and the administration that supports service delivery. Benchmarking of NDIS providers indicates overheads represent around 28% of direct costs.⁵⁹ However, such figures should be interpreted cautiously and not conflated with what is needed or appropriate for all organisations in such a diverse sector, and recognising there are many different ways costs are categorised and measured. Importantly, although the Australian Community Trends Report⁶⁰ notes that keeping administration costs below 20% reflects expectations of the Australian public, these expectations may not be well informed, nor reflect actual costs. In that study, charity workers, with more knowledge of the needs of the sector, were more likely consider 20-30% a more appropriate range for administrative costs.⁶¹

Consistent with a 'starvation cycle',⁶² ACT community organisations reported feeling under pressure to reduce their business overheads. One informant indicated that they perceive that government expects these costs to be around 10%, but that more than this needed to be budgeted for, leading to sometimes 'tricky' negotiations. Others said they sought infrastructure costs ranging

⁵⁸ ACNC (undated) *Charities and Administration Costs*, <https://www.acnc.gov.au/for-public/understanding-charities/charities-and-administration-costs>. Note that while charities are independent and their governing body is responsible for administration, the ACNC may investigate unreasonable high administration or salary costs, as this may indicate deviation from governance standards.

⁵⁹ Deloitte Access Economics Final report – *Temporary Transformation Payment Benchmarking Survey*, May 2020, downloaded from <https://www.ndis.gov.au/providers/pricing-arrangements/making-pricing-decisions/financial-benchmarking#benchmarking-survey-results-2020-21>

⁶⁰ McCrindle Research (2019) *Australian Community Trends Report, National Research Study*. <https://mccrindle.com.au/wp-content/uploads/reports/Australian-Communities-Report-2019.pdf>

⁶¹ Whereas only 16% of the public felt it appropriate for administration costs to be above 20%, 53% of charity workers saw the optimum percentage of administration costs to be above 20% (mostly between 20 and 30%). McCrindle Research (2019) *Australian Community Trends Report, National Research Study*. <https://mccrindle.com.au/wp-content/uploads/reports/Australian-Communities-Report-2019.pdf>

⁶² See Section 2.2 for a description of the starvation cycle.

from 15% to 18%, however, this could reflect what the program allowed, not what they required, and as noted above, there is no simple benchmark for overhead costs.

Service Costing Survey data (Figure C. 6) shows only a minority of leaders considered their overheads and infrastructure costs were adequately funded:

- Few organisations have adequate funding for legal support (17%), vehicles and travel (24%) and technology (28%)
- Accommodation, such as office space, typically accounts for 6% of organisation's total expenses.⁶³ However, accommodation-related costs are not adequately covered by ACT funding.
 - only 29% are adequately funded to maintain their facilities;
 - only 31% are adequately funded for security; and
 - only 35% are adequately funded for cleaning.

Many also felt the rises in accommodation costs imposed by the ACT Government (as landlord) were unfair, especially where they outstripped indexation rates.

- Technology, and technology-mediated service delivery grew in importance during the pandemic. The ACT Government has stepped in with additional supports for the sector,⁶⁴ however in the Service Costing survey, leaders continued to report technology is unfunded or underfunded. Only 28% reported their ACT funding was adequate for covering technology costs.
- Only 29% report that their stream of ACT funding adequately funds their regulatory compliance.
- Only 37% report adequate funding for PPE and safety equipment.

A few of the comments made by leaders indicated the organisation was able to cover these, due to capacity to self-fund, pool funds across programs, or add an administrative fee to grants (Table 5.3).

⁶³ Calculated based on the most recent financial statements available via ACNC for 40 ACT charities delivering social services and which received government funding, sourced from acnc.gov.au.

⁶⁴ For example through the Technology Upgrade Fund, see https://www.cmtedd.act.gov.au/open_government/inform/act_government_media_releases/davidson/2021/technology-upgrade-fund-to-build-digital-capacity-for-community-organisations

Table 5.3 Leaders comments on business overhead costs

Issue	Comment from leader
Some organisations have strategies for covering business costs	<p>Insurance, audit, rent etc are all wrapped up in a 15% base admin fee applied to contracts.</p> <p>The program pays an 18% corporate service charge to cover office space, insurance, accounting services and security.</p> <p>Most of the costs of these items are shared amongst our funding sources so it is only the combination of these that makes them possible.</p>
Funders do not recognise administrative costs, which are rising	<p>No additional costs of administration are included in the funding provided for this work, even though hiring a staff member and running this program requires costs including community relations and events, IT, subscriptions, administrative costs etc.</p> <p>Insurances have increased dramatically and placed pressure on our resources. Technology and being compliant with appropriate system places strain on funds with unexpected failures, call outs etc</p> <p>Cost of annual financial audit has increase by 50% in the past two years, cost of IT, client info and data systems and accounting software has also increased by a similar amount</p>
Organisations are expected to cover shortfalls in overheads	<p>We are generally expected to raise our own funds to cover all administrative costs. If you go for a grant and actually put what it would cost you to deliver a program you will never win the grant. As the expectation of regulatory compliance increases we are expected to somehow absorb these costs.</p> <p>The core funding does not specify infrastructure/overhead costs. We just know that the core funding does not cover the true cost of delivering services so we allocate funds internally to cover as best we can, with an overall overspend.</p>
Some organisations can defray costs by using volunteers	<p>We don't have an office or staff. Committee volunteers manage administration. Insurance and other costs are met by a small grant.</p> <p>We have legal expertise on our committee, do not undertake travel, and undertake our own cleaning and maintenance with volunteer support.</p>
Leaders make compromises in order to cover costs	<p>ACT CSD contracts are flexible in allocating for infrastructure and overhead to provide quality service but we sacrificed the number of employees to cover these costs.</p> <p>[Our organisation] constantly balances funding allocation between staffing and infrastructure costs and organisation activities. Often, one area loses out to another.</p>
Rising property prices are a particular source of pressure	<p>Building - we have out grown our site + our operations could expand considerably if we had more rooms (with a moderate staffing increase) = more site efficiency.</p> <p>We are currently in ACT Government accommodation. They have increased rents by 3% this year, but our funding only increased by 1.75%.... . . . if we had to rent from the private market we would have to make staff redundant to either fund the additional cost, or to allow for working in a smaller space so that we could minimise rent.</p>
Overhead funding affects service delivery	<p>When funding is inadequate (or where there is no flexibility in funding agreements), our ability to respond effectively and innovatively to changing client and community need is limited. We have little opportunity to invest in new technology that will make operations more effective (which is a catch-22 scenario).</p>

Source: ACT Service Costing Survey, 2021

5.5 Evaluation, reporting and governance

A particular concern for sector leaders is the adequacy of ACT funding for the costs of monitoring and evaluating services and reporting, along with governance, planning, applying for grants and contracts, and maintaining a financial reserve for the future. On all measures, most leaders said ACT funding left them underfunded or unfunded for these activities (Figure C. 7).

In their comments, leaders noted their organisations need sufficient funds to plan for the future, ensure crisis preparedness; and ensure a professional approach to applying for grants. However, evaluation garnered most attention in their comments. Typically, monitoring and evaluation requires between 5 and 20% of program costs, with more funds needed where there are complex decisions to be made, or to satisfy initial information needs where programs haven't previously been evaluated.⁶⁵ Leaders in the ACT underlined the importance of properly funding evaluation. They argued that while evaluation is frequently underfunded, it provides important evidence about interventions; helps understand why services are working or not and for whom; and underpins ongoing improvement. Leaders' comments are in Table 5.4.

Table 5.4 Leaders' comments on evaluation

Issue	Leader comment
Evaluation is under-resourced	<p>We have developed a number of programs which we would like to evaluate properly if we had the resources to do so.</p> <p>There is insufficient resourcing for evaluation. We self-fund this.</p> <p>Monitoring and evaluation requires an increasing amount of time to complete and there is no dedicated person or time to do this. It is currently an additional task in a full diary.</p>
Some, but not all organisations can find ways to pay for evaluation	<p>We have used our own cash reserves to pay for evaluation. But we now put evaluation costs in proposals every time. I guess again we have chosen to spend some of the grant funding on a CEO who is senior and has the skills to do a lot of these things as well as deliver our core programs. I don't think that's necessarily ideal it's just how we make do with what we have.</p>
Reporting generates costs	<p>Reporting is great but there is always something new requested which is outside of the scope of existing report formats - thus I feel we are always retracing our steps to identify statistics we did not collect at the time.</p>

Source: ACT Service Costing Survey, 2021

⁶⁵ Better Evaluation (undated) Determine and secure resources, https://www.betterevaluation.org/en/rainbow_framework/manage/determine_and_secure_resources

5.6 Unquantified activities in funding agreements

As evident throughout Section 4, there are some activities community organisations consider to be needed and expected, but which are not properly funded. Analysis of funding agreements between the ACT Government and community organisations confirmed there are 'grey areas' that require clarification. Some activities specified in funding agreements are not clearly quantified, which risks exacerbating costs for organisations. Analysis of past CSD agreements highlighted activities that could be more clearly specified, including: embedding inclusive practices in services; employing appropriately qualified and skilled staff; enabling staff to work effectively; participating in program governance, workforce development and training; participating in business planning and service improvement discussions, and building operational capacity and improving policy and program design. These activities are not quantified in agreements in terms of outputs or hours, and as a result, likely costs are unclear and demands may be difficult for organisations to predict and manage.

Review of funding agreements also showed that some include arrangements to cover cost increases, such as the ability for organisations to request in writing a joint review of services, which the ACT Government will give due consideration to, and may agree to vary outputs or performance requirements. Some agreements also specify a level of variation to funded activity allowed. However, the extent to which either of these forms of flexibility are used, and whether they meet the sector's needs, is not clear. Another form of flexibility relates to processes for repaying any unacquitted funds. Consultation with Directorate representatives indicated that remaining funds after small underspends may be retained (e.g. <10%), with underspends beyond these levels considered to be relatively rare. This appears to provide some flexibility to organisations, and responds to the perspective (expressed in the worker forum) that some surplus should be able to be held across years. However, processes relating to any surplus or underspend do not appear to be consistent across government. Among community sector leaders, underspending did not emerge as an issue, other than a couple of leaders mentioning that difficulties recruiting staff can result in underspent funds. Greater consistency in the inclusion of these flexibility measures in funding agreements would be helpful. However, while flexibility is welcomed, it cannot fully address the underlying problem of insufficient levels of funding.

6. Current responses to resource pressures

Government and community organisations use a wide range of strategies to manage and respond to the pressures of rising demand and rising costs. Indexation is key: it helps government to maintain the real value of funding, and the sector's purchasing power, over time (Section 6.1). Organisations explained that they attempt to reduce the impacts of any shortfalls on clients, communities and staff, but resource pressures inevitably impact on their decisions about tendering with the ACT Government (Section 6.3), and how they manage their staff and service delivery (Section 6.4) and finances (Section 6.5).

6.1 Indexation

Indexation is a strategy used by government to maintain the value of funding. Usually, multi-year contracts are indexed annually. This helps funded organisations meet increases in wage-related and administrative costs. Each year, indexation is calculated using a formula set by ACT Treasury and the rate is announced in ACT Budget documents (Budget Paper No. 3)⁶⁶:

Community Sector Funding Rate = (Wage Price Index × 0.8) + (Consumer Price Index × 0.2).

Where indexation is inadequate, it will deplete the real value of funding, and sector capacity. Indexation rates for ACT-funded services for the past 15 years are in Figure 6.1. Through this period, the indexation rate, calculated using this formula, has fallen.⁶⁷ Indexation rates for ACT services have been relatively low in recent years. In 2020-21, the Community Sector Funding Rate resulted in a level of indexation which was low in the ACT compared with other jurisdictions (Table C. 4). Indexation has been low through a period in which the community sector has experienced increased demand and costs following the impact of the 2019-20 bushfire season and the COVID-19 pandemic.⁶⁸ In interviews and in the survey, sector representatives reported that indexation has been insufficient to cover the rising rents in the ACT, and increased wage costs. Figure C. 8 shows that wage increases resulting from the Fair Work Commission's Annual Wage reviews have been higher than the Community Sector Funding Rate for four of the last seven years, and there was a substantial gap in 2017 and 2018, when wage increases were 1.5 percentage points higher than indexation. Organisations engaged with the ACT government may also be impacted by inadequate indexation in their Australian Government funding.⁶⁹

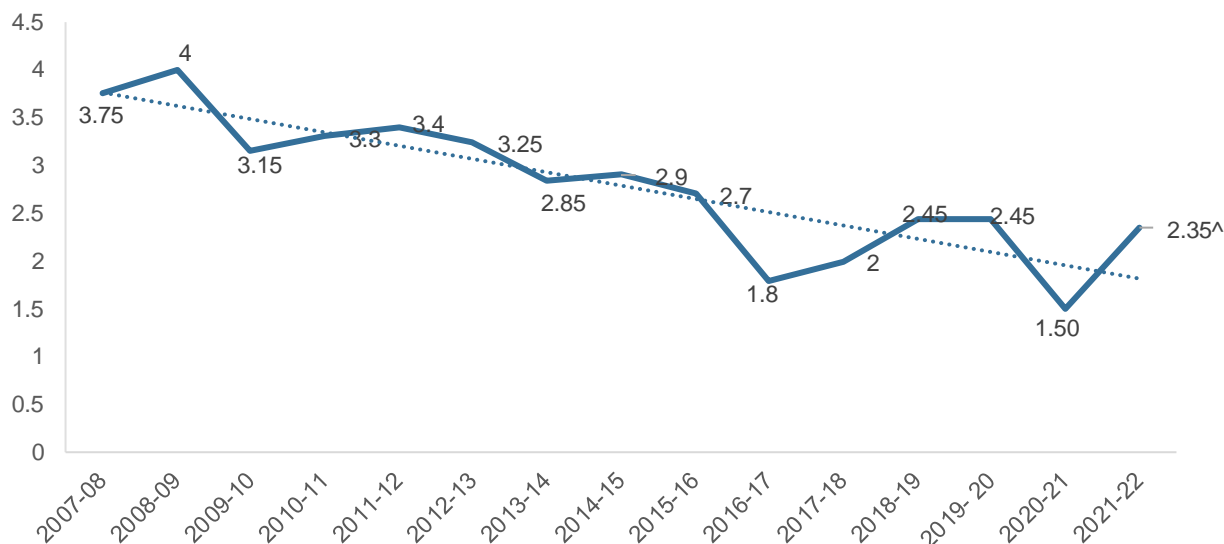
⁶⁶ In Budget documents, the ACT Treasury reports the value of the WPI and CPI rates it uses to calculate the Community Sector Funding Rate, but does not report which of the various Wage Price Indices or Consumer Price Indices are used, the period used to calculate annual rates, and whether it uses rates for the ACT or Australia.

⁶⁷ Through this period, the formula for calculating the Community Sector Funding Rate has not changed.

⁶⁸ See Cortis N and Blaxland, M (2021) *Meeting community needs in difficult times: experience of Australia's community sector*. Sydney: ACOSS, https://www.acoss.org.au/wp-content/uploads/2021/04/meeting-community-needs-in-difficult-times-experiences-of-Australias-community-sector_WEB_v2.pdf

⁶⁹ The Service Costing Survey indicated 63% of community sector organisation receiving ACT funding were also receiving Australian Government funding. The Australian Government does not have a consistent approach to indexing funding, and in the past, has paused indexation altogether, reducing purchasing power and service capacity. See, for example, Community Affairs References Committee (2015) *Impact on service quality, efficiency and sustainability of recent Commonwealth community service tendering process*, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Grants/Final_Report; ACOSS (2021) *Budget Priorities Statement*, <https://www.acoss.org.au/wp-content/uploads/2021/02/ACOSS-BPS-FINAL.pdf>

Figure 6.1 Indexation rates from 2007-08 to 2021-22 (%)



Source: ACT Budget papers 20078 to 2021-22 (Paper No. 3) ^While the rate for 2021-22 was anticipated to be 1.75%, the October 2021 Budget announced an increase to account for legislated minimum wage increases.⁷⁰

6.2 Sector views on indexation

ACT organisations report that indexation arrangements have not achieved the aim of maintaining purchasing power. In addition, leaders report that some of their ACT funding streams are not indexed. The Service Costing survey captured information about 88 organisations. Of these, all provided information about their ‘main’ streams of income from the ACT Government, and 12 also provided information about another (secondary) stream of funds received from the ACT government. Of all 100 streams assessed, 13% were reported to not be indexed (Table C. 5). For a further 10%, the informant was unsure whether indexation applied Figure 6.2 shows that:

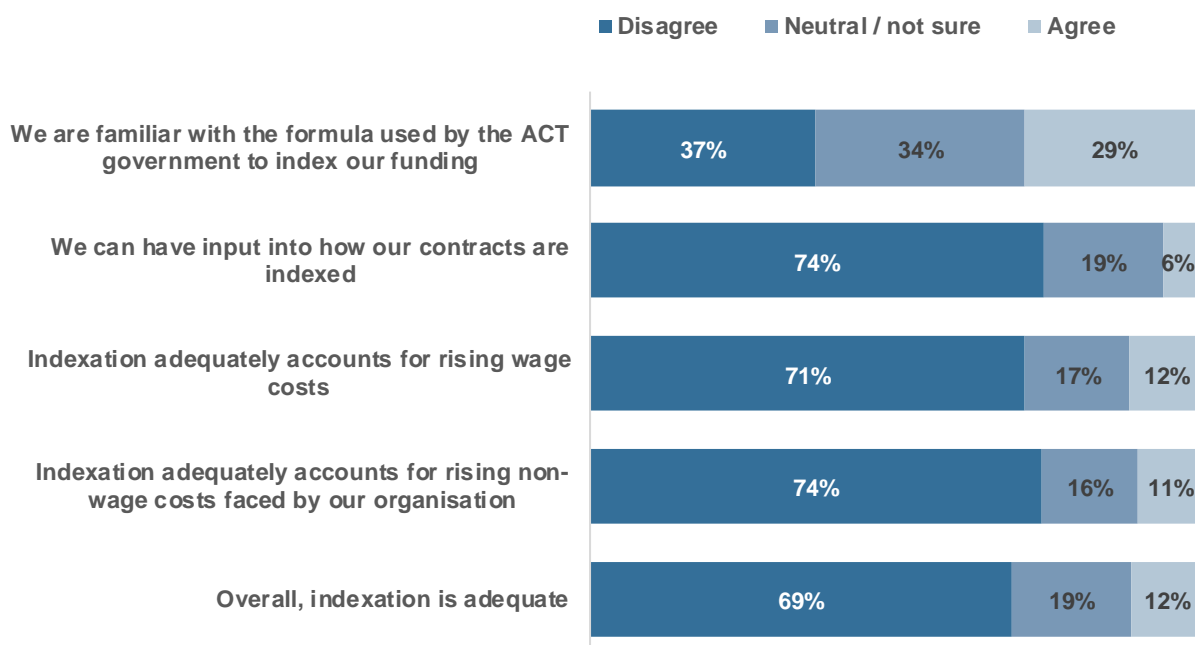
- Only 12% of leaders agreed with the statement ‘Overall, indexation is adequate’.
- Only 12% agreed indexation adequately accounts for rising wage costs.
- Only 11% agreed indexation adequately accounts for rising non-wage costs.
- Only 6% said they can have input into how their contracts are indexed.

A large minority of leaders (37%) said that their organisation is not familiar with the formula used by the ACT government to index their funding. This indicates that the 2022 Indexation review offers important opportunities to improve the sector’s understanding of the way indexation operates, and to increase sector engagement in shaping it (more detailed suggestions are in Section 7.1)

Overwhelmingly, comments left by participants in the Service Costing survey focused on the inadequacy of current approaches to indexation. Examples of comments from leaders are in Table 6.1.

⁷⁰ This may not account for changes in the above award payments often needed to attract and retain experienced staff.

Figure 6.2 Perspectives on indexation



Source: ACT Service Costing Survey, 2021

Table 6.1 Leaders' comments on indexation

Issue	Comment from leader
Indexation arrangements are not well understood	<p>The indexation rate is a complete mystery and certainly has not considered increase in wages and super this year.</p> <p>It would be great to have clarity around the indexation formula, and to see the amount increase at the same rate as wages and services such as insurance and rent that we must pay.... All of our outgoings increase as a percentage of the preceding year (even govt bills like rent) but our income is minimally indexed on a core amount from up to 3 years prior</p> <p>It is clear that the Directorates impacted by indexation (which is decided by the Chief Minister, Treasury and Economic Development Directorate) do not understand how indexation for our services is calculated. This year salaries will increase by 2.5% plus increases to super and LSL.</p>
Indexation is too low	<p>Wages costs make up about 70% of our budget. These rise at 4% pa, indexation is well short of that.</p> <p>Indexation neither covers mandated award wage rises (3% this Financial Year, compared to indexation increase of 1.75%), other inflationary rises (even rent from ACT Property) and not even increases in demand due to population increases.</p> <p>Our rent goes up by 3.5% per annum, indexation is currently under 2%.</p> <p>The index does not match the qualifications required to deliver services.</p> <p>All sources of indexation need to be at a minimum meet the minimum wage rises. Compliance costs and training are increasing annually and there is no funding to meet these costs.</p> <p>I think it needs to better account for the costs of compliance and business administration. Audit fees, insurance, office rent & utilities bills routinely exceed both the CPI and WPI meaning indexation is never adequate and our organisation is required to tap into cash reserves to bridge the gap.</p>

Issue	Comment from leader
	<p>Indexation is especially inadequate given Canberra's high cost of living - what about a location allowance to address this?</p> <p>Indexation is not enough to compete with salaries in other employer government/consulting</p>
<p>Low indexation makes organisations compromise on essential activities</p>	<p>Unfortunately our costs increase higher than our indexation each year in staff wages and on-costs, so we end up having to sacrifice the workforce but our targets remain the same.</p> <p>On July 1st wages increased 2.5%, plus .5% super, plus .4% LSL = 3.4%. On average contracts were increased 1.2%-1.75%, leaving a gap. That gap means we cut quality, training, supervision, memberships, research and innovation, networking, administration personnel, consultants and increase the managers areas of responsibility... Every year we go backwards... To improve this, let's have the ACT Govt meet the minimum wage rise issued by the govt, as well as any increases in super.</p> <p>...Our costs increase each year higher than indexation. I feel quite strongly that indexation encourages you to not be successful with your people and your program delivery. If I have a high performing staff member I have to cut operational costs to give them a classification progression. The biggest issue is that we have had the same contract for 10 years and same amount of money. Working specifically in [this] space we are only going to increase our work with population growth and now a pandemic, it really leaves us in a difficult position and opens us up to getting toppled by a poor quality competitor.</p>

Source: ACT Service Costing Survey, 2021

6.3 Applying for ACT Government funding

When considering whether or not to apply for ACT government funding, organisations in the Service Costing Survey reported that their highest priorities are to deliver services aligned to mission, and to ensure users get the best quality services. However, the third most common consideration is ensuring costs are fully covered (Figure C. 9). The extent to which costs will be covered is a high concern for the sector, with rising demand and rising costs deterring some organisations from working with Government:

- 61% of leaders said that in the last three years, their organisation had decided not to apply for ACT funding because of poor cost coverage.

Organisations reported that they have made losses and incurred debt from past service delivery and cannot continue doing so, or that they avoid programs where funds cannot be used to cover wage costs. Others expressed concern about having to rely on volunteers to deliver underfunded programs, and said they cannot apply because their volunteers lack time or capacity.

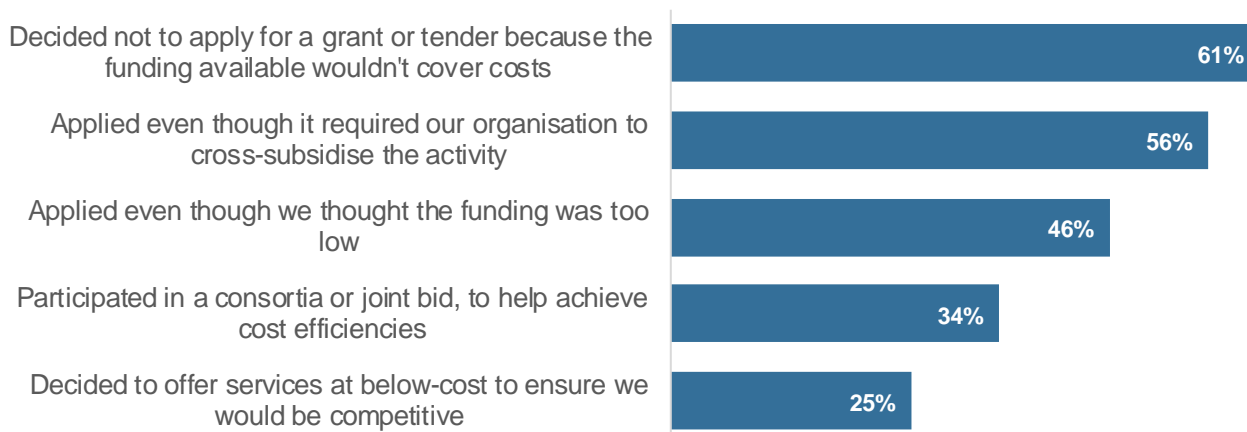
Some organisations are, however, able to cover shortfalls. In the Service Costing survey, 56% of leaders said their organisation applied for ACT funding even though funding arrangements required the organisation to cross-subsidise (Figure 6.3). Of course, cross-subsidising is not necessarily negative: it can enable organisations to grow and diversify, and it provides a way to add value and achieve mission.⁷¹ While there are examples of organisations successfully cross-subsidising service delivery in the ACT, not all organisations can do this. Further, fundraising, or establishing and

⁷¹ James, E. (2003) Commercialism and the mission of nonprofits, *Society* 40(4): 29-35. DOI:10.1007/s12115-003-1015-y

maintaining additional revenue streams, itself consumes resources. As one leader aptly explained: “The constant need to supplement funds from third parties distracts from the business at hand.”

Another response for organisations determined to secure funding is to attempt to gain a competitive advantage by offering services below cost. Indeed, Figure 6.3 indicates that a quarter of organisations had decided to offer services at below-cost, to ensure they were competitive. This sends misleading signals to government about costs, and risks exacerbating pressures on the sector.

Figure 6.3 Decisions about applying for ACT Government funding, in the last 3 years



Note: Source: ACT Service Costing Survey, 2021. Data, including a breakdown by ACT funding source, is in Supplementary Data (Table C. 11).

Table 6.2 Leaders' comments on consideration when applying for ACT funding

Issue	Leaders' comments
Organisations strategically pursue funding that is aligned to their purpose and mission	<p>Applying for tenders is primarily based on addressing unmet needs of vulnerable population</p> <p>Mission alignment is key - it must meet our strategic goals and deliver for our clients. Where possible, we also aim to have the project meet all costs, but this rarely happens</p> <p>We only apply for funding where we see health gap in the community that would benefit from our expertise and support</p> <p>We very much do not apply for funding for the sake of it. Each year we highlight areas of focus and seek grants/tenders aligns to that.</p>
Sustainability is not a sufficient priority in the ACT's approach to tendering.	<p>The competitive nature of funding application rounds forces agencies to tender in a manner where sustainability is not a consideration or a possibility.</p> <p>If you apply for the true cost of a program it won't get funded, but if you apply for less then you fail to deliver you'll be concerned about rolling over work that is then unfunded</p>
Some funding challenges arise from organisations, not only government	<p>CEO's 'success' is also often tied to getting grants, even if this is not necessarily the best thing for an organisation. Some funding challenges are also board-related as well as government related.</p>

Source: ACT Service Costing Survey, 2021

6.4 Staffing and service delivery responses

Organisations use multiple strategies to manage inadequate funding levels, and try to ensure they do not impact on clients and communities.⁷² The most common strategy that organisations reported using to manage their ACT funding was finding creative solutions to overcome resource constraints. This was used by 59% of organisations (Table C. 9). However, in their comments, sector leaders sometimes explained that constantly finding new creative ways to do more with less was exhausting and dispiriting (see Section 7.4).

Funding has not matched increased wage costs or overheads, as a result we have at times had to take lower skilled workers to deliver services and look to grow them, and there is no funding for additional training, research or innovation.

Management is stretched very thin, and there is a concern that we are moving away from quality as a result - which could have devastating results for an under skilled, overcapacity workforce.

Other strategies used by organisations potentially place quality at risk:

- Around half of leaders (51%) said they had used casual or short-term staff to help manage their ACT funding.
- Almost 2 in 5 needed workers to perform tasks above their classification due to lack of funds (39%)
- Almost 2 in 5 (38%) used volunteers because of lack of funds to pay employees.
- There is also evidence that resource constraints cause services to narrow their client focus. While some services deliver narrowly targeted, specialised services, one third (34%) of organisations said they had targeted specific groups of clients in response to limited funds or staffing constraints.
- A quarter said they used staff with qualifications below what they felt was ideally required (25%).

Analysis by main source of ACT Government funding is shown in Table C. 9.

In their comments in the Service Costing survey, sector leaders described that they and their staff were severely overworked and at risk of burnout in the sector's current resource environment.

⁷² 74% of participants reported two or more strategies, and 29% reported using five or more strategies.

Overwork, burnout, backfilling, and staffing levels are major concerns for sector leaders, for example:

I have worked in Government and for-profit environments and never felt this overworked. In the for-profit environment we were very efficient but had enough staff and could meet demand. The biggest challenge is the lack of funding for administration. This means senior managers are overwhelmed by both program work and administration. Further, when a staff is on leave or training, there is no capacity to cover their absence. We pay staff well in my organisation and recruit at an appropriate level. But this means we have fewer staff able to deliver the work.

While some were also concerned about having to change or 'water down' planned interventions due to lack of funds, their comments emphasised unfair and unsustainable workforce impacts. Leaders recognised that community sector workers' make significant contributions to service systems and communities, which helps manage funding shortfalls, through low wages and working conditions:

The investment made by the modestly paid employees in the NFP sector is significant. This is done despite the lack of training and advancement opportunities, the absence of bonuses and receiving the minimum superannuation contribution. The community benefits disproportionately from the dedication of these individuals who passionately invest in their community.

However, this strategy, of workers carrying the costs of under-resourcing, was not considered sustainable, and contributes to turnover. One leader described the impacts of underfunding on the community services workforce:

Constant stress. Immense sense of de-value, regardless of dedication and complexity of work delivered and against comparable status of others in alternate industries, including government.

Organisations also used volunteers to sustain capacity in the face of inadequate funding for paid roles. One leader described:

In our organisation, volunteers usually pick up and run the activities that are not funded.

However, this was not an option for all organisations. Further, volunteer numbers could be limited, they were needed for both frontline and administrative roles, it was viewed as risky to give volunteers work they were not properly trained or qualified to do, and volunteer burnout was an issue. Managing volunteers also added tasks to the workloads of staff already working at capacity.

Participants in the workers' forum also observed that these strategies have implications for service quality. They noted that:

- Underfunding causes services to "cut corners trying to do things", resulting in inefficiencies, and poorer quality and outcomes. For example, understaffing may cause organisations to 'triage' the most urgent cases, "pushing the problem down the road" and causing less serious issues to turn into crises.
- In out-of-home-care, services to vulnerable children are delivered by 'skeleton teams', undermining consistency of care. Staff are highly capable and committed but understaffing and instability make it difficult to develop good relationships and trust with children.

- Sometimes, additional assistance for clients is drawn from training budgets, leaving workers to complete any training in their own, unpaid time.
- Frontline staff pick up administrative work or rely on volunteers including students who are then exposed to situations they are not qualified to deal with.

6.5 Financial responses

Financial strategies are also used to manage cost pressures,⁷³ and to ensure clients and communities are not affected by low funding levels. Most commonly, organisations try to introduce new efficiencies and work practices or find other funds to cross subsidise ACT programs (each reported by 56% of organisations).⁷⁴ However, some less sustainable responses are also evident. In particular:

- almost half of organisations (47%) had incurred a loss on programs delivered for government, in the last three years.

Other strategies include collaborating with organisations in ways that enabled cost sharing, introducing technology to reduce administration (although this required investment and training), curtailing services to operate within budget, disallowing paid overtime and time in lieu, incurring losses, reducing quality, using volunteers, and receiving funding from a national body.

Comments from leaders highlighted that where they locate and the communities they service involve decisions about funding and viability, and not only about client need. Concern about funding has caused some organisations to consider withdrawing from servicing the ACT, or to restrict operations to limited parts of the Territory:

Minimal funding to cover costs has the organisation considering its viability in the ACT, which would reduce services to vulnerable members of the ACT community.

The program operated across Canberra and now only operates on one side of Canberra. Effectively [we] only service half the ACT now.

Others described trying to obtain income from side projects or commissioned work, or from charging user fees. But, as this service leader explained, this was not an option for all, and introducing service fees was considered disadvantageous to community members who need access to services for free:

We deal every single day with disappointed people because we cannot provide their support needs. We do run a lower cost arm of our business, however we can't afford to provide free services to those that need it the most. This feels awful. If you have no money in Canberra, you can't get the support that you actually need and deserve.

⁷³ In the Service Costing survey, many used multiple strategies: 84% of leaders reported that their organisation had used two or more financial strategies listed, and 29% reported using five or more, in the last three years.

⁷⁴ Data is provided in Table C. 10.

7. Improving funding in the ACT

As underfunding is complex and longstanding, it is unlikely that it can be addressed in easy, low-cost ways. However, in their responses to the Service Costing Survey, ACT community organisations indicated they were keen to work with government to find solutions.

When organisations were asked what should be done, several highlighted that closer 'listening' to the sector would help set strong foundations for change:

They need to recognise the true cost of service delivery and LISTEN to community services providers.

Close 'listening' between government and community organisations is especially important given past experiences of seeking required resources:

We have been told outright that there is no more money and that the demand on our services is our fault for making them [the services] visible. Government needs to truly listen to us working in the community. We have repeatedly provided the evidence as to why our area of work needs to be better funded to meet the needs of the community and we are repeatedly told that there's just not enough money.

7.1 The 2022 review of indexation

Addressing sector aspirations for government to 'listen' and engage to develop alternatives, the ACT Government has announced a review of indexation. In its 2021-22 Budget, the ACT government announced it will review the Community Sector Funding Rate that will apply in future years (see Section 6.1 for detail on the current indexation rate). The Government has provided \$4 million over four years to increase annual indexation.⁷⁵ This sets an important platform for change.

The review is an opportunity to improve government understandings of the challenges the sector faces, and to develop a new approach. Community sector input should be a key priority.⁷⁶ Relevant issues include:

- the range of ACT funding streams which attract indexation, and gaps in coverage.
- the suitability of the Community Sector Funding Rate for reflecting changes in costs incurred by a high capacity, sustainable community sector, including employment costs.
- the relevance of using different price indexes to adjust payments.⁷⁷

⁷⁵ ACT Government (2021) *Budget Outlook, 2021-22*, https://www.treasury.act.gov.au/_data/assets/pdf_file/0008/1870136/2021-22-ACT-Budget-Outlook.pdf

⁷⁶ See Section 6.1 for examples of sector perspectives.

⁷⁷ The ABS provides some guidance on developing and adopting indices in funding contracts. It outlines the need to ensure the 'base' items subject to indexation are precisely specified and weighted, that appropriate indexes are selected, that indexation is at appropriate frequency, and that the formula for calculating changes is appropriately defined. See: ABS (undated) *Inflation and Price Indexes – Use of Price Indexes in Contracts*, <https://www.abs.gov.au/websitedbs/D3310114.nsf/home/Inflation+and+Price+Indexes+-+Use+of+Price+Indexes+in+Contracts>.

- impacts of past ACT Government indexation practices.
- impacts on ACT organisations of indexation practices used by other funders (e.g. Australian Government, major philanthropic programs)
- Alternative approaches to indexation, which would provide a better guarantee for the sector.
- The appropriate frequency of indexation.
- The extent to which changes in indexation can address longer-term underfunding, and the limitations of indexation.
- Additional strategies required to address demand and cost pressures.
- Processes for regular monitoring and review.

In exploring these issues, we note that the key components of the current index, the CPI and WPI, are unlikely to accurately reflect the mix of costs of community organisations. CPI is based on price changes for a basket of household consumer goods and may not accurately reflect the costs typically incurred by community sector organisations, e.g. leasing commercial premises, and business services such as auditing, legal services, IT systems, and evaluation. Some organisations may incur some typical consumer costs, but these are unlikely to be weighted in the ways the CPI assumes. For example, 22.7% of the CPI is accounted for by residential housing prices. Analysis of the financial statements of 40 community service organisations in the ACT indicated that while accommodation expenses ranged widely and many organisations own their premises or can access discounted accommodation, rents typically accounted for around 6% of organisations' costs. Moreover, organisations may source housing from commercial rather than residential markets. Similarly, the WPI is based on a 'basket of jobs' across the economy, and not the narrower group of occupations in the community sector. The indexation review should assess how well this reflects the level of change in wages in social and community service occupations, which have experienced rapid growth in the ACT.

While CPI and WPI may not fully capture the cost increases affecting the community sector, they do, nonetheless, provide proxies. A strength is that they are well understood in the community and in the sector compared with producer price indices, none of which appear any better suited to community services. One option would be to re-weight the Community Sector Funding Rate formula, to adjust the split between WPI and CPI (currently 80:20). However, this is unlikely to result in greater relevance, given the wide range of circumstances across the sector. For example, ACNC data for 105 relevant charities in the ACT indicates that while spending on employees was, on average, 64% of total expenses, this varied across charities, from 9% to 89%. Adjusting to, say, a 65:35 split would not be better for all, and would not reliably provide for better cost coverage.

A simpler guarantee for the community sector, and one requiring a less detailed and less complex formula than the Community Sector Funding Rate, is to provide regular, six-monthly increases which are in line with either CPI or WPI, whichever is higher. However, drawing only on WPI or CPI would result in only very modest increases. While these small increases would, over time accumulate, they would not guarantee a level of indexation sufficient to meet annual rises in the minimum wage. For this reason, we recommend that funding be indexed using the higher of three rates: CPI, WPI or

the increase in SCHADS award rates. The ‘whichever is higher’ principle is recommended as it has been used effectively in the income support system to maintain the purchasing power of pensions, and pensions’ parity to earnings. Pension indexation occurs in March and September each year. Since 2009 adjustments have been based on the either CPI or the Pensioner and Beneficiary Living Cost Index⁷⁸, whichever is higher. Rates are then benchmarked to a proportion of male total average weekly earnings.⁷⁹ This has helped to maintain the value of pensions more effectively than allowances like Jobseeker payment and Youth Allowance, which are adjusted only in line with CPI.

On this basis, replacing the Community Sector Funding rate with the simpler approach of indexing grants to either CPI or WPI or the annual increase in the SCHADS award, whichever is higher, will give the sector better security about cost coverage.

Analysis of how this recommended formula would have applied over the last seven years is in Table 7.1. This shows that in each year, the recommended rate would have been only slightly higher than the Community Sector Funding Rate but would have provided better security, particularly in years of large Award wage rises.

Introducing this formula does not involve large allocations for funders. The impact will be small in each year, but will accumulate over time. The process will not be costly to administer. The recommended approach will provide gradual increases and better security for all funded organisations. With fuller transparency from ACT Treasury about how it is calculated, the approach will be better understood and more accepted in the sector.

Table 7.1 Comparison between the Community Sector Funding Rate and the recommended formula

	2014-15	2015-16	2016-17	2017-18	2018-19	2019- 20	2020-21
Community Sector Funding Rate	2.9%	2.7%	1.8%	2%	2.45%	2.45%	1.5%
Increase in SCHADS award (Annual Wage Review)	2.5%	2.4%	3.3%	3.5%	3%	1.8%	2.5%
WPI	3%	2.75%	2%	2%	2.5%	2.5%	1.5%
CPI	2.5%	2.5%	1%	2%	2.25%	2.25%	1.5%
Rate that would apply, under recommended formula	3%	2.75%	3.3%	3.5%	3%	2.5%	2.5%
Difference between recommended formula and Community Sector Funding Rate	0.1%	0.05%	1.5%	1.5%	0.55%	0.05%	1.0%

Note: WPI, CPI and the Community Sector Funding Rate were drawn from ACT Budget Paper 3. Increases in Award rates are sourced from <https://calculate.fairwork.gov.au/FindYourAward> and do not include ERO increases.

⁷⁸ This is considered a better reflection of cost of living changes for households whose main source of income is government payments.

⁷⁹ The combined couple rate is benchmarked to 41.76% of male total average weekly earnings and the single rate at 66.33% of the combined couple rate.

7.2 Coverage of full costs

Changing the approach to indexation will gradually improve how purchasing power is maintained over time. However, adjusting the indexation formula will not rectify past underfunding, or ensure coverage of the many service costs that leaders identified as currently unfunded or underfunded. Without boosting funding levels, under-resourced services will continue to be rolled over and pressures perpetuated.

The need for governments to cover full costs has been repeatedly raised in national reviews of the community sector,⁸⁰ but not yet addressed. Analysis of ACT funding agreements, along with the Service Costing survey, show that some expected contributions of the community sector are not quantified in terms of hours or outputs. Yet sector leaders are clear that this work comes at a cost.

Workers and leaders highlighted the need to adjust funding according to recognition of full costs; reduce the frequency of tendering processes to provide more stability and cost efficiencies; and end tendering processes which spur a race to the bottom via under cutting and price-based decision making. Leaders sought an end to procurement based on low pricing, and greater emphasis on quality and impact. As one aptly commented:

Services should be commissioned based on their capacity to do good work not cheap work.

Leaders identified aspects of services which were often overlooked:

Procurement must focus on value for money, not lowest price - ensuring that items such as technology, systems, quality, research, recruitment, training, supervision and good governance are funded appropriately (and not excluded). Benchmarking of true costs is essential - looking at the true costs of ACT Government delivering services not just at how the "cheaper" NFP sector can do it at a reduced rate. Contracts need to have in them allowances for research and evaluation - this is always the first to go when cutting a budget to meet a tender figure.

Advocacy, consultation, policy input, evaluation, and reporting were typically considered unfunded or underfunded, despite expectations from government that community service organisations will engage in these activities. Evaluation was a high priority:

Funding agreements need to build in (in addition to service deliver costs) an additional percentage of funds for the conduct of program evaluation. Currently funding agreements don't provide sufficient funds for service delivery, and certainly not routinely funding evaluation.

Including a reasonable margin in allocations, as a mechanism to ensure sustainability was also a priority:

In every contract there needs to be a margin of surplus (not profit) to assist with capacity building and to support the organisation to reinvest - in technology, in attaining & maintaining quality registration and being compliant with all legislation and standards, in research, in

⁸⁰ These go back for decades, for example see Industry Commission (1995) *Charitable Organisations in Australia*, Report No. 45; Productivity Commission (2010) *Contribution of the Not-for-Profit Sector, Research Report*, Canberra.

training, in strategic planning. This is not available to us, which is a concern - are we a healthy social services sector?

The transition to a commissioning approach in the ACT offers vital opportunities for new ways of working, with clients at the forefront. Full cost coverage will support the transition. Funding levels should support the commissioning transition by enabling flexibility to respond to new, emerging needs. It is important to act early to identify any hidden or unforeseen costs of operating in a commissioning environment, to ensure the sector is well positioned to meet new expectations of partnership and co-design. Leaders highlighted that there are costs associated with collaboration, for example:

Government also needs to understand that integration/collaboration/partnerships cost money and that this is adequately provided for in procurement and funding agreements. It is a requirement that we do this, and we know it is better for client outcomes, but service resources are inadequately funded now and can't also absorb the costs of partnership/relationship management, co-design/co-creation, etc.

In light of evidence of systemic under-resourcing, funding agreements across government require review to ensure full coverage of all reasonable costs that are incurred in the course of delivering high quality services. Funding levels should be sufficient in all programs to ensure decent work for paid staff, including ensuring job security and continuity (and avert costs associated with turnover); skill development, training; and pay rates that enable progression and are competitive in the ACT. Better funding levels should end the unsustainable juggle so that organisations can instead adequately provide for the needs of clients, staff, volunteers, and maintaining suitable infrastructure and business services. Leaders noted that often, one essential area of their operations has to lose out to another. However, clients, staff and volunteers should not suffer the consequences of funding models that do not adequately cover infrastructure and other essential costs, and funding should ensure organisations are robust and sustainable for the future.

7.3 Cross-subsidisation

As shown in Section 6, cross-subsidising is a common practice in the ACT. It allows organisations to cover shortfalls in funding, and is a means to add value to local programs. While some organisations may be in a position to shift funds across their operations, this cannot be assumed or expected. Small, specialised organisations with a strong local basis, in particular, may lack capacity. It may be inappropriate for some types of services, and can be insecure as philanthropy and commercial revenue fluctuates, as the pandemic demonstrated. Leaders outlined that in the long-term, fundraising cannot be expected to help sustain government programs:

It's really hard when you don't work in a 'sexy' area or are not aligned with a larger group who can raise your profile to bring in philanthropic funds. We don't focus on fundraising as this is a specialty that we don't have and we can't afford to bring in (it is too risky and we have been bitten in the past). Our business is in providing health care/support to mostly low income people. This shouldn't have to be fundraised for. It is cheaper to outsource this work and that is why Government does so, therefore it should be properly resourced. Poor people shouldn't have to settle for less just because of their income status.

Philanthropic support is always welcomed but is not adequate to sustain programs. Many grants and opportunities are available for the set up of programs but do not support the continuity and ongoing costs of these programs or existing programs that were started up

from the grants. Sustainability of programs and services in the Community Services Sector is critical, service users and participants need security of support services.

The economic fallout from COVID19 reminded us it is dangerous to rely on both cross-subsidisation and corporate philanthropy to fund service delivery as this evaporates when the economy falters, at the very time demand for community services surges. We need to accept reliance on the market to fix market failure is a false economy

Another leader reported that their organisation had no choice but to make their own contributions to filling systemic gaps in provision. These gaps meant they attended to numerous calls for support from people who were not directly part of the community cohort the service was funded to support, but who presented with high needs. The leader estimated that this amounted to around 0.2FTE.

7.4 Finding further cost efficiencies

Some further efficiencies may be possible, through reduced red-tape and unnecessary reporting, for example, and through better collaboration; mergers or amalgamations; shared back-office functions; and technology. However, many strategies have already been tried, in response to the pressures felt by the sector in recent years. Changes in processes can be costly, can distract from organisations' focus on clients and communities, and may not resolve resource pressures. Some efficiencies come at the cost of quality, and 'cheap' solutions can be ineffective and generate further costs:

Funding levels mean we often chose cheap solutions to things like databases that then are not fit for purpose. There needs to be adequate funding for infrastructure to support organisations to work more effectively.

Leaders were sceptical about the efficiencies likely to be achieved by underfunded organisations:

Organisations are already running on inadequate funding so it is difficult to find resources to do modelling, find efficiencies, invest in new systems that will reduce costs.... Can look at shared back of house services but these can also cost money and time in the initial set up.

Significant frustration and fatigue were evident among leaders, for example, who were already been stretched to the limit to find efficiencies:

We have worked hard to become as efficient, effective and sustainable as we can. It is offensive to suggest we could or should do more.

I will be honest - I'm getting tired of this fight. I could put up fees but then I'd just drive away the people that need my service so it defeats the purpose. We deliver more than twice what we are funded for and we could deliver twice this again if it was funded. There are only so many hours of unpaid labour that you can ask your staff to deliver.

Other suggestions included efficiencies from working collectively to negotiate vendor discounts on goods or services like insurance, IT or PPE. It is also important to recognise that the sector has benefited from government support to upgrade technology during the pandemic, however, further support may be required to transition to new systems and generate future efficiencies.

7.5 Accurate service costing

Some pressures may be reduced if community organisations had better capacity to cost services and were forthright in communicating full costs to government. However, the Service Costing survey showed:

- Most leaders agree that their organisation has the information, and the internal expertise required, to accurately cost their services (72% and 67% respectively).
- A bigger constraint is time: only a minority agreed they had the time to analyse costs (44%).
- Very few said they understand how other community organisations cost their services (20%), suggesting scope within the sector to learn from each other.

Notably, larger organisations (annual incomes over \$5 million) have better access to information, expertise and resources to cost services compared with small organisations (Table C. 8).

Comments left by leaders (Table 7.2) acknowledged the importance of accurate costings, without which organisations would be left disadvantaged. Some managers and boards have sophisticated skills for costing, some organisations have access to pro bono support, but there is wide range of capacities across the sector, and some do not have access to relevant expertise. There is scope to build capacity and overcome the inequities and barriers that some organisations face.

Table 7.2 Leaders' comments on accurate service costings

Issue	Example of comment
Costing is time consuming but essential	Costing our work is highly time-consuming, but if we don't do this well we further disadvantage ourselves by applying for too little funding. Capacity building in this area should be a part of core funding.
Across the sector, there is a wide range of capacities and resources for costing.	<p>We have a sophisticated patient management system that does allow us to cost all our services really accurately (and we pay for this dearly - out of our own reserves!).</p> <p>We are not-for-profit and we have no idea how other community organisations cost their services. ... Our organisation does not have any internal expertise to help us with these things. Our Board is made up of volunteers who are elected annually. They are ...not experts on any of these things</p>
Some draw on pro-bono support	<p>If not for the luck of obtaining pro bono short-term legal and tendering support, our capacity to cost services would be extremely low.</p> <p>With private funding, we have sourced expert external consultants who assist us with costing our services. The time we can invest in this reflective and analytical work is always the hardest part. We rely on pro bono contributions from these providers also.</p>

Source: ACT Service Costing Survey, 2021

The non-profit starvation cycle described in Section 2.2 describes a process of lowering costs that spirals ever lower, driven in part by organisations playing to funders' expectations that overheads will be low. There was concern among some ACT leaders of a 'race to the bottom' as services compete to provide lower cost services, including through competitive tendering processes. One highlighted the need to end this unhelpful cycle:

We must understand the true cost of delivering the service we deliver and price accordingly. Collaboration is required so the sector does not start to in fight to cost match or beat each other in the bid for funding.

Indeed, a quarter of service leaders said they had offered services below cost in order to be competitive for funding. Workers also discussed adversity for workers and clients of what was perceived as an over-emphasis on cost competition in tendering processes. But there were also calls to collaborate to ensure that services and government understand and act on the true cost of service delivery. Collaboration and a commitment to the collective endeavour of accurately communicating costs is particularly important in a context of competitive funding rounds. The true cost of service delivery is most likely to be recognised and funded by government when it is routinely conveyed by most community service organisations in their funding applications.

7.6 Resourcing quality early intervention and prevention

A key priority should be to ensure that early intervention and prevention is fully resourced, to stem growing need and complexity in the community, and to reduce the risks of subsequent costs arising and escalating later. This is a shared priority of government, community sector leaders and workers.

Sector leaders identified the need to continue to improve recognition of the effectiveness, costs and benefits of early intervention and preventative measures, to demonstrate the return on investment, and continue to shift the sector from reactive, crisis-driven models.

7.7 Monitoring population needs

To ensure capacity to intervene early and respond to demand, ongoing needs analysis, including monitoring population trends and community needs across Canberra are priorities. Information to identify pressures early, and drawing on sector input, will help ensure government and the sector are well positioned to direct resources to emerging areas. Importantly, leaders noted that consultation on emerging need and how to address it early should include unfunded organisations, who may have different intelligence about population trends and needs than those funded to address previously identified needs. Again, the shift to a commissioning approach should provide a mechanism for strengthening needs assessment and capacity to intervene early. The ACT Wellbeing Framework provides a platform for ongoing monitoring, however indicator data may lag behind trends evident to community organisations on the ground.

8. Recommendations

The report has shown evidence that the ACT community sector is grappling with challenges of increasing demand and rising costs. This is impacting on how organisations do their work, and for some, their willingness to partner with government.

How to respond inevitably rests on political judgements and choices, about the standards of support that are appropriate, and the levels of unmet need that government, and Canberrans, will accept. Responses will also reflect a vision of how government and the sector will work together; and who should bear the costs of responding to inequality and disadvantage.

We suggest a set of adjustments in relation to both rising costs, and rising demand.

8.1 Adjustments to respond to rising costs

Recommendation 1: Adopt a revised approach to indexation

The ACT Government has shown its responsiveness by committing to review indexation. The Community Sector Funding rate has resulted in falling purchasing power in the sector, over at least fifteen years. Drawing on principles that have helped maintain the value of the Age Pension over time, we recommend that the Community Sector Funding rate be replaced with an approach that involves:

- Ensuring all ACT funding is indexed.
- Applying indexation cumulatively and every six months, according to the CPI or WPI for the ACT, or the increase in SCHADS wage rates, whichever is highest.
- Incorporating other cost drivers as they arise and in full, for example legislated superannuation decisions, or increased regulatory and compliance costs.

This approach will be simpler to administer and give stronger guarantees to the sector that the value of their funding will keep pace with costs. Indexation every six months will reduce the impact of lag, whereby organisations have faced higher costs for more than a year before receiving increased funds.

As a mechanism for review, we recommend:

- resources be provided to the community sector to review this approach and monitor its impacts annually.
- A comprehensive, formal review of the approach be conducted by its fourth year, to consider all progress to date and recommend any further revisions to ensure it is fit for purpose in an emerging operational environment. This could be undertaken through existing governance arrangements, such as the JCGRG or ISSG.

Recommendation 2: Review ACT funding streams to ensure full cost coverage

Funding levels in all ACT funding streams require review to ensure they recognise and cover the full costs that community organisations incur in delivering ACT programs.

Government expectations for contracted services should be clearly set out in funding agreements. Funding and contract duration should be sufficient to ensure qualified staff can be recruited and retained at classification levels suited to job tasks; and which allow organisations to provide quality professional development, supervision and other supports, and which enable career progression that keep skilled workers at the frontline. Funding levels should also ensure resources are sufficient to cover reporting; administration; technology; innovation, planning and service improvement; auditing, legal and other necessary business activities; along with co-design and involving people with lived experience; consultation and policy input; advocacy; and evaluation. The shift to a commissioning approach is an important development. The full costs of adjusting to and participating in this new model approach should be covered.

Where it is deemed inappropriate for government to cover full costs, the rationale for providing funding on a contribution basis should be clear and transparent.

Recommendation 3: Continue to encourage efficiencies to reduce cost pressures

The sector has faced significant pressure to find efficiencies under circumstances of underfunding, and capacity for further efficiencies appear limited. Strategies to stretch funds can only go so far; government initiatives to address underlying issues such as lack of social housing and inadequate rates of income support will be more effective. However, where efficiencies are possible, and can be introduced without impacting on quality, they may help relieve some cost pressures. Such initiatives may include collective negotiation of service costs, for example a group of services could collectively negotiate discounted rates for insurance, auditing or other services. Efficiencies would also result from longer contracts that reduce costs of retendering; and removing unnecessary red-tape or reporting requirements.

Recommendation 4: Build sector capacity to accurately cost services

Building capacity to accurately cost services will help ensure unfunded expenses are identified and accounted for. Smaller organisations in particular are likely to benefit from access to expertise to support accurate costings, and from sharing skills, processes and systems for costing services, across the sector. Further, the sector should collectively engage in processes that signal the true costs of service delivery, including their overhead costs, and ensure these are reflected in funding applications.

8.2 Adjustments to respond to rising demand and unmet need

Recommendation 5: Boost funding for areas of unmet need

Improving indexation, cost coverage, and costing capacity will have gradual impacts, and will not address the issue of increased demand. Recognising that unmet need has accumulated in Canberra, and that the complexity of service user cohorts is increasing, funding boosts are required to increase the scale of provision and address unmet need; restore intervention fidelity (e.g. where

programs have been delivered with reduced 'dosage' or inadequate staffing due to funding issues); and reduce waiting lists. Funding boosts could be directed to priority sub-sectors, or through applications from specific organisations facing demand pressures and responding to unmet need. This requires capacity for early identification of unmet need, and can be supported by quality monitoring of social, demographic and economic trends in Canberra, as per the ACT Wellbeing Framework, needs assessments as part of commissioning and procurement framework processes or advice from peak bodies. Programs to boost funding to address rising demand unmet need will continue to be required into the future.

Recommendation 6: Prioritise early intervention and prevention

The ACT should continue to prioritise early intervention and preventative models, recognising that capacity to respond to risks early reduces subsequent resource requirements and pressures.

8.3 Conclusion

The report attests to the commitment of the ACT Government and the community sector to work in fair partnerships to ensure clients and communities receive good quality services. However, too often, funds do not fully cover all that is needed to meet needs. Financial pressures have accumulated, and organisations now juggle too many competing needs and make too many compromises.

These challenges have impacted on how organisations do their work, and for some, their willingness to partner with the ACT Government.

Working together is essential to resolving these entrenched issues. The sector has expressed a desire to co-operate and work with government to ensure that services can be delivered efficiently and effectively to community members when they are in need, and without staff or volunteers having to unfairly carry the costs. The ACT Government has demonstrated impressive initiative to address these issues, recognising that decent funding arrangements and appropriate indexation are essential for addressing need in the ACT.

Appendix A Information about methods

Information was collected from multiple sources, and included:

- Analysis of cost drivers in the ACT including changes in population composition, community need and the workforce.
- Analysis of expenditure from the Annual Information Statements provided to the Australian Charities and Not-For-Profits Commission in 2019 by 105 ACT community service charities who received government funding and employed staff.
- Analysis of annual reports and financial statements from government and community sector organisations.
- Evidence-based research and policy documents.
- Initial sector interviews with three community organisations, to understand key issues and constraints, and to inform the development of the Service Costing survey.
- Consultations with key stakeholders including ACTCOSS, the project advisory group and government representatives and training providers.
- Analysis of contract templates, funding policies and funding information provided by the ACT government.
- A forum with workers from the ACT community sector to explore their experiences and perspectives
- In consultation with the advisory group, a survey design was developed to capture experiences and perceptions of funding adequacy, gaps, and experiences of partnering to deliver services in the ACT. The ACT Service Costing survey captured perspectives of 88 community organisation leaders (mostly CEOs) who together provided information about 100 streams of ACT government funding (12 leaders provided information about 2 streams of funding).

Ethics clearance was obtained from the University of New South Wales Human Research Ethics Panel HC10638. Data was collected in mid-2021, just prior to the August lockdown which sought to contain the Delta wave of the COVID-19 pandemic.

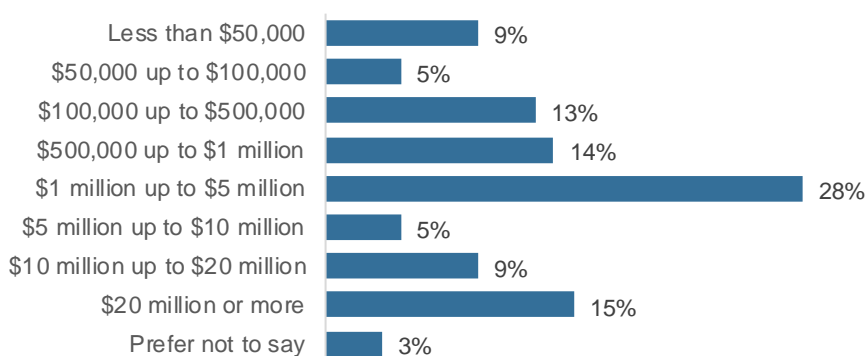
The Service Costing Survey, which captured information from service leaders in the ACT, is a key source of information. The survey was conducted to help understand organisations' perspectives on funding levels; the ways organisations determine costs; factors enabling organisations to cover costs; areas of operations which risk under-costing; and strategies used to ensure viability and deliver value for money. The study was conducted online from 3 to 23 August 2021, via Qualtrics. Content was developed following interviews with organisational leaders and in consultation with advisors from ISSG. It was distributed via ACTCOSS and CSD. In total, 88 leaders provided input. Each provided detailed information about their main stream of ACT funding, and 12 provided additional information about a second stream of ACT funding. Together, the information captured experiences with 100 streams of funding from the ACT Government.

The worker forum was co-organised by ACTCOSS and the Australian Services Union. It brought together eight frontline workers in September 2021, who provided their experiences of the resource environment and cost coverage, and the impacts felt by workers when service costs are fully covered, or when services are financially stretched.

Appendix B About participants in the ACT Service Costing Survey

Most participants (76%) were CEOs, Executive Directors, General Managers, or Chief Financial Officers, and a further 14% were other senior managers, such Territory managers, or service managers, and 10% were in other roles, such as Chairs or Presidents, or Treasurers. Participants were from organisation of varying sizes, 9% were very small (less than \$50,000 in annual income), while 15% were from the largest organisations (\$20 million or more) (Figure B. 1).

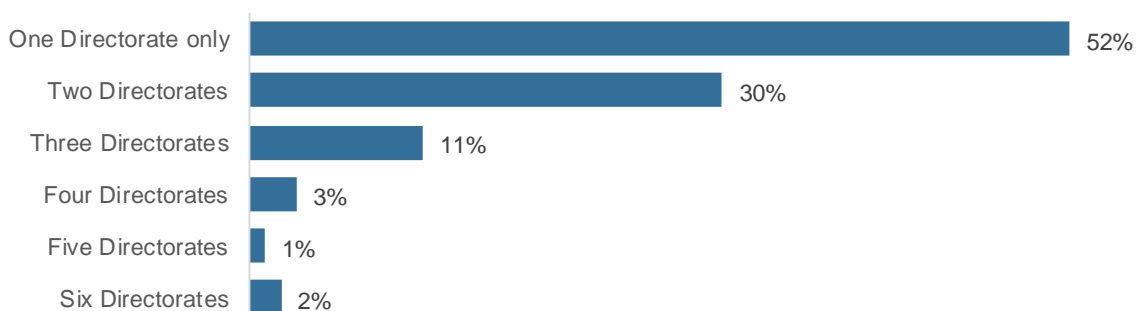
Figure B. 1 Size of participating organisations (annual income), n=88



Source: ACT Service Costing Survey, 2021

All survey participants were in organisations which received some funding from an ACT Government Directorate. Just over half (46 organisations, or 52%) received funding from one Directorate only, while 26 organisations (30%) had funding relationships with two Directorates (see Figure B. 2). Most often this was Community Services and Health.

Figure B. 2 Number of ACT Directorates organisations received funds from, n=88



Source: ACT Service Costing Survey, 2021

Few organisations (6%) received funds from four or more Directorates. While it may be expected that larger organisations might engage with multiple Directorates, the six who reported receiving funds from four or more Directorates included medium sized organisations with annual incomes in the \$1-\$5 million range, as well as very large organisations receiving \$10 million or more. Some very large organisations engaged with only one ACT Directorate.

On average, organisations received 49% of their income from ACT Government sources, however this varied. For those whose main source of funding was from CSD, 44% of the organisation's income, on average, came from the ACT Government, whereas for those whose main source from ACTHD, 54% of income came from the ACT, on average. On average, philanthropy and commercial income made only small contributions to organisational income, with many receiving no income from these private sources (see Table C. 1).

Core and project funding

Organisations were asked if they received core and/or project funding from each Directorate. 88 % of participating organisations received some core (i.e. ongoing or renewable) funding, and 64% received some project funding. The proportions receiving core and project funding from each Directorate is shown in Table B. 1. Further information about the number of Directorates organisations received core and project funding from is in Table B. 2, Figure B. 3 and Figure B. 4.

Table B. 1 Number of participating organisations who received core and project funding from each Directorate, n=88

Directorate		n	%
Community Services	Core	48	55%
	Project	37	42%
Health	Core	41	47%
	Project	22	25%
Justice and Community Safety	Core	5	6%
	Project	6	7%
Education	Core	5	6%
	Project	4	5%
Environment and Sustainable Development	Core	1	1%
	Project	5	6%
Chief Minister, Treasury and Economic Development	Core	4	5%
	Project	12	14%
Transport	Core	0	0%
	Project	5	6%

Source: ACT Service Costing Survey, 2021

Table B. 2 Number of ACT Directorates that organisations received funding from, by size of organisation (annual revenue)

	Less than \$1 million (n=35)	\$1 to \$5 million (n=25)	More than \$5 million (n=25)
One Directorate only	63%	40%	52%
Two Directorates	31%	28%	24%
Three Directorates	6%	16%	16%
Four Directorates	0%	12%	0%
Five Directorates	0%	4%	0%
Six Directorates	0%	0%	8%

Source: ACT Service Costing Survey, 2021. Note: 3 organisations for which size was not reported are excluded.

Figure B. 3 Number of Directorates from which core funding was received, n=88

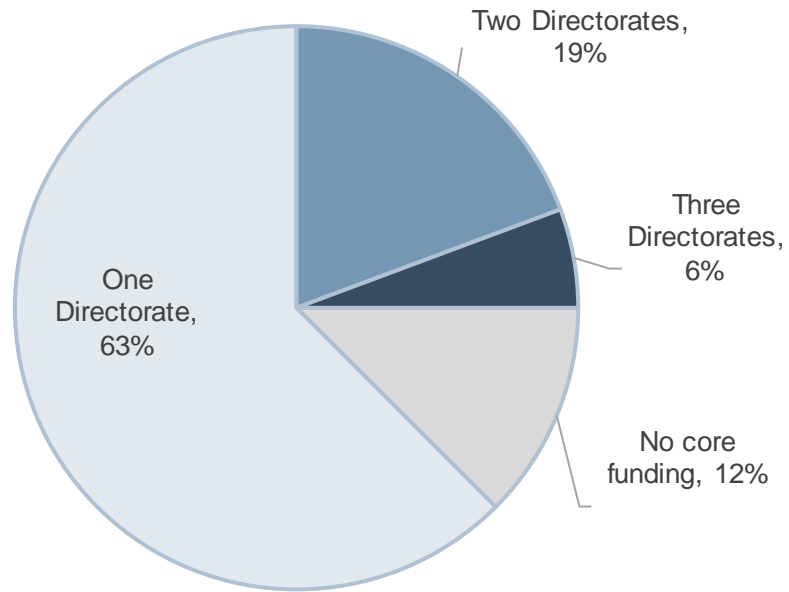
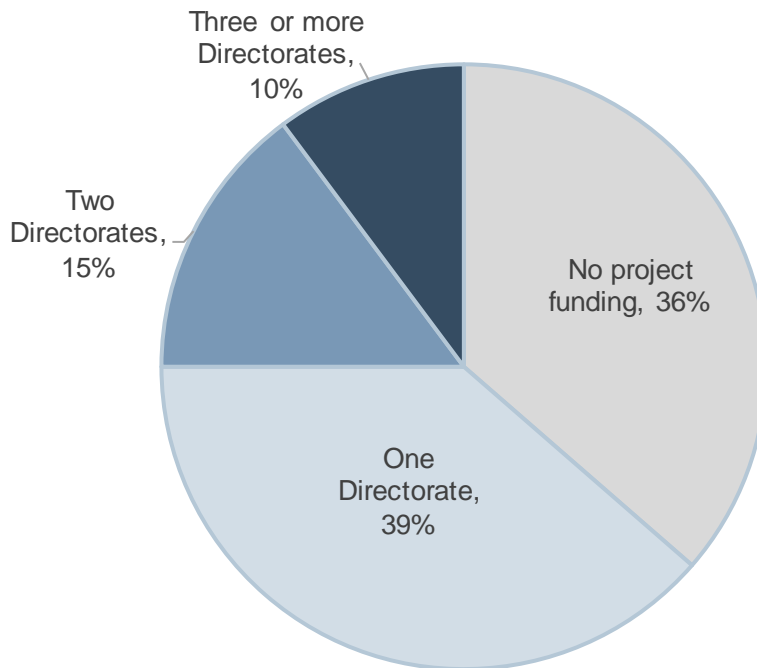


Figure B. 4 Number of Directorates from which project funding was received, n=88



Source: ACT Service Costing Survey, 2021

Main sources of ACT government funding

Participants nominated their main source of ACT Government funding then focused on this funding stream in the questions that followed. As an option, they could also answer the same questions in relation to a secondary source of funding. 88 provided information about their main source of ACT Government funding, and of these, 12 opted to provide additional information about a secondary funding stream. The proportion who answered in relation to different types of funding is in Table B. 3.

Table B. 3 Participants who answered questions about funding stream

	Number of participants (n)	% of participants (n=88)
Core funding from CSD	41	47%
Project funding from CSD	9	10%
Core funding from Health	36	41%
Project funding from Health	6	7%
Other funding	8	9%
Total funding streams assessed	100	

Source: ACT Service Costing Survey, 2021. Note: % is over 100 as 12 participants answered questions about 2 funding streams

Organisations use funds for a wide range of specialist and generalist supports: community mental health and other health-related services; housing and homelessness services and supports; disability and ageing services and supports; supports for children, youth and families, including parenting supports; supports for people affected by family and domestic violence; alcohol and other drugs services; community information and events; multicultural services; legal supports; financial supports; food and nutrition supports; peak body operations; and initiatives to promote and enable consumer participation and advocacy.

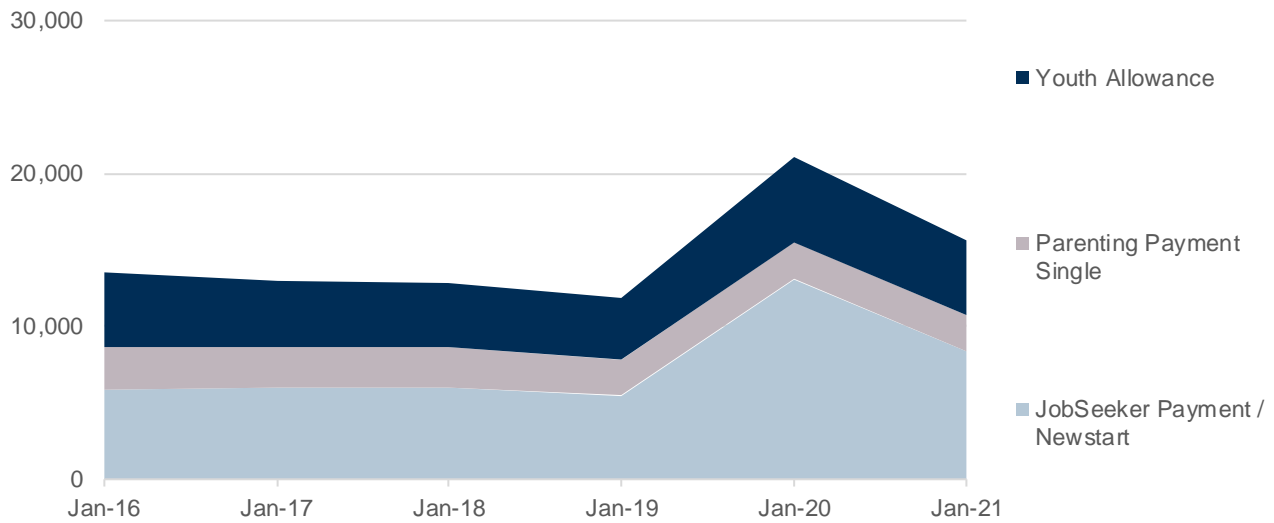
For 87 of the 100 streams of funding received (87%), funds were used to employ staff, with numbers of time equivalent (FTE) staff employed being, on average, 11.6 (median=4). This differed according to funding source. Those answering in relation to CSD funding employed 16.4 FTE staff on average, while those answering in relation to Health funding employed 7.8 FTE staff, on average.

Sector leaders' responses to regarding the adequacy of these funding sources are explored throughout the remainder of the report.

Appendix C Supplementary Data

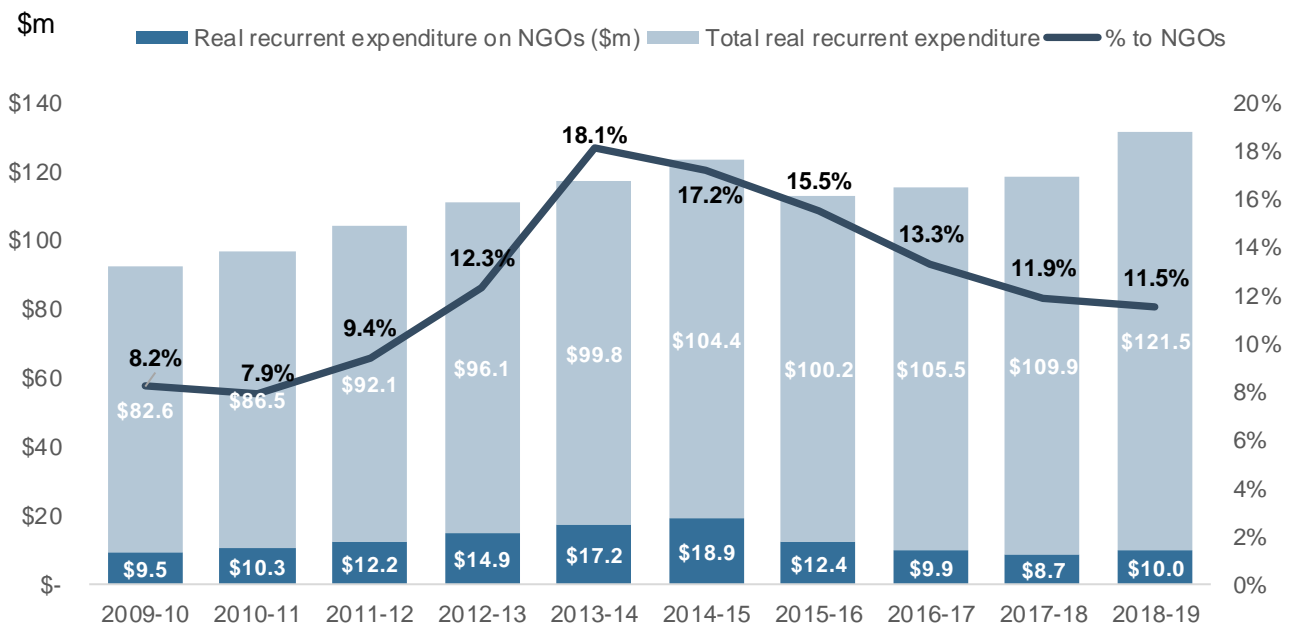
Charts

Figure C. 1 People receiving Jobseeker, Parenting Payment and Youth Allowance in the ACT, June 2016 to June 2021



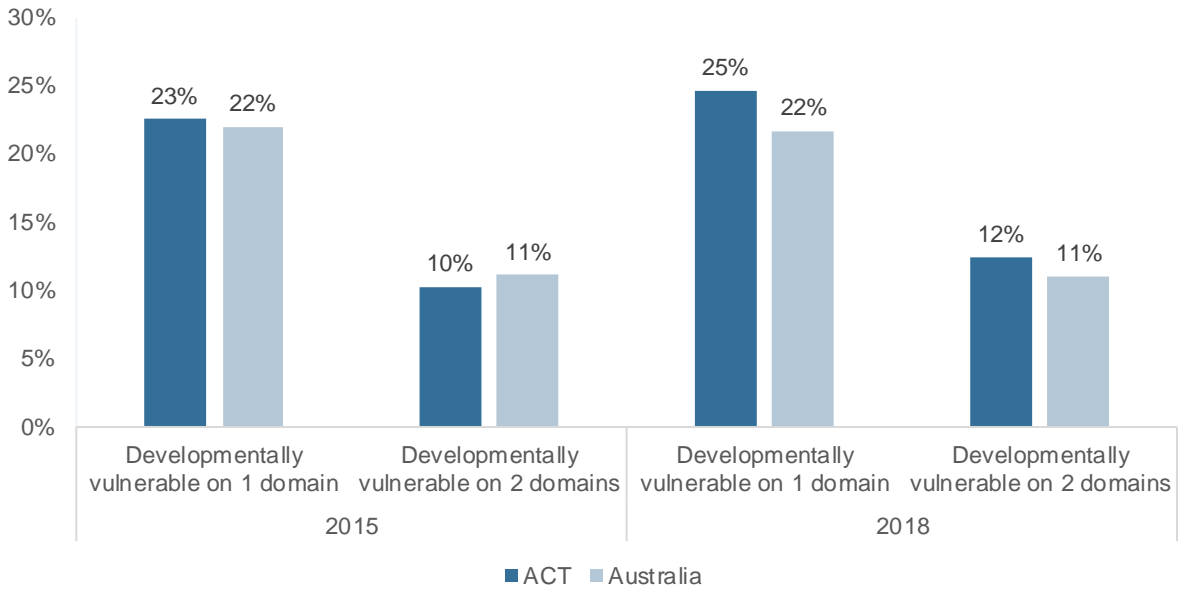
Source: DSS Demographics, spreadsheets for June 2016, 2017, 2018, 2019, 2020 and 2021 downloaded from DSS Payment Demographic Data, data.gov.au, downloaded 31 August 2021.

Figure C. 2 ACT expenditure on specialised mental health services (\$m, 2018-19 dollars), and % of spending to NGOs



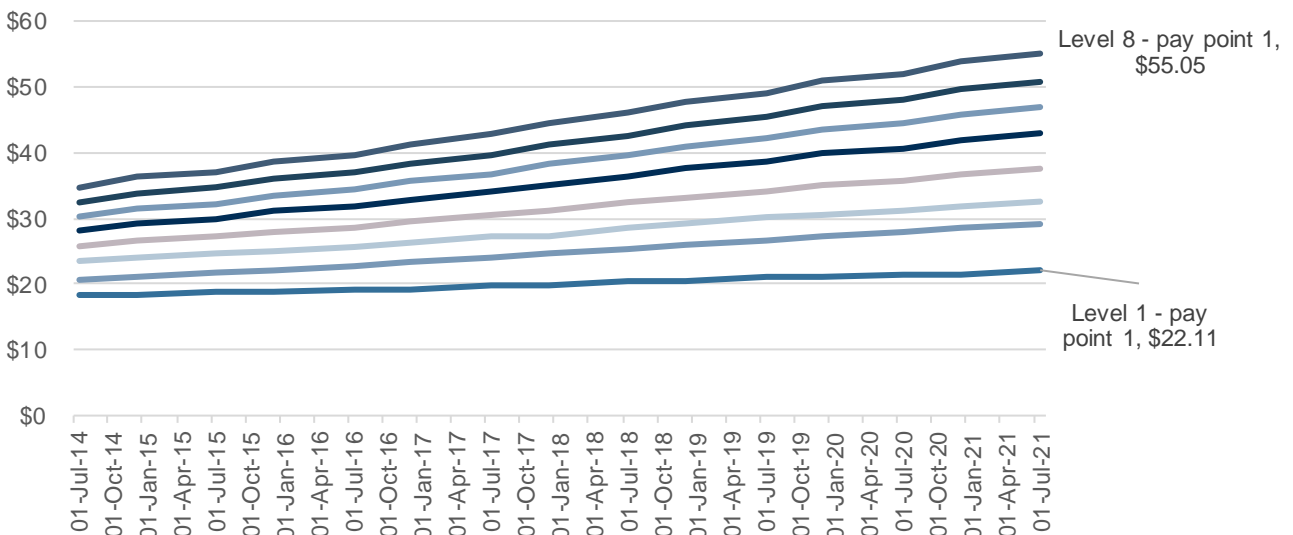
Source: Productivity Commission, Report on Government Services, 2021, Services for Mental Health, Table 13A.3.

Figure C.3 Proportion of children developmentally vulnerable, 2015 and 2018



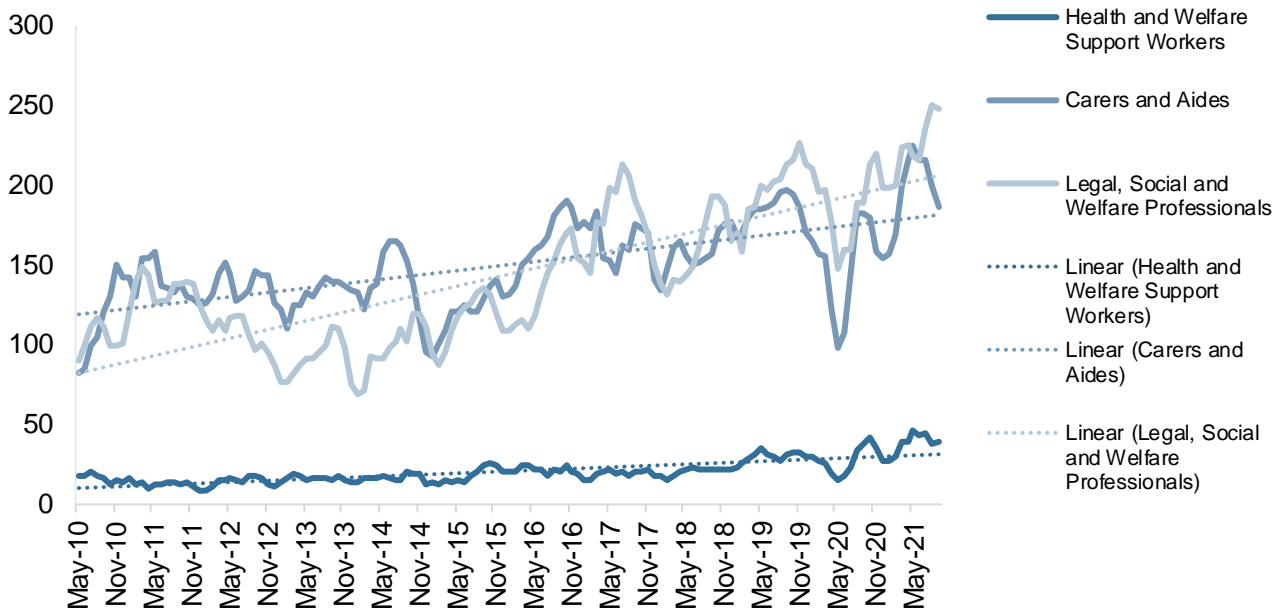
Source: AEDC Data Explorer, <https://www.aedc.gov.au/data/data-explorer>

Figure C.4 Change in hourly rates, Social and Community Services Employees, full and part time (ACT), 2014-2021



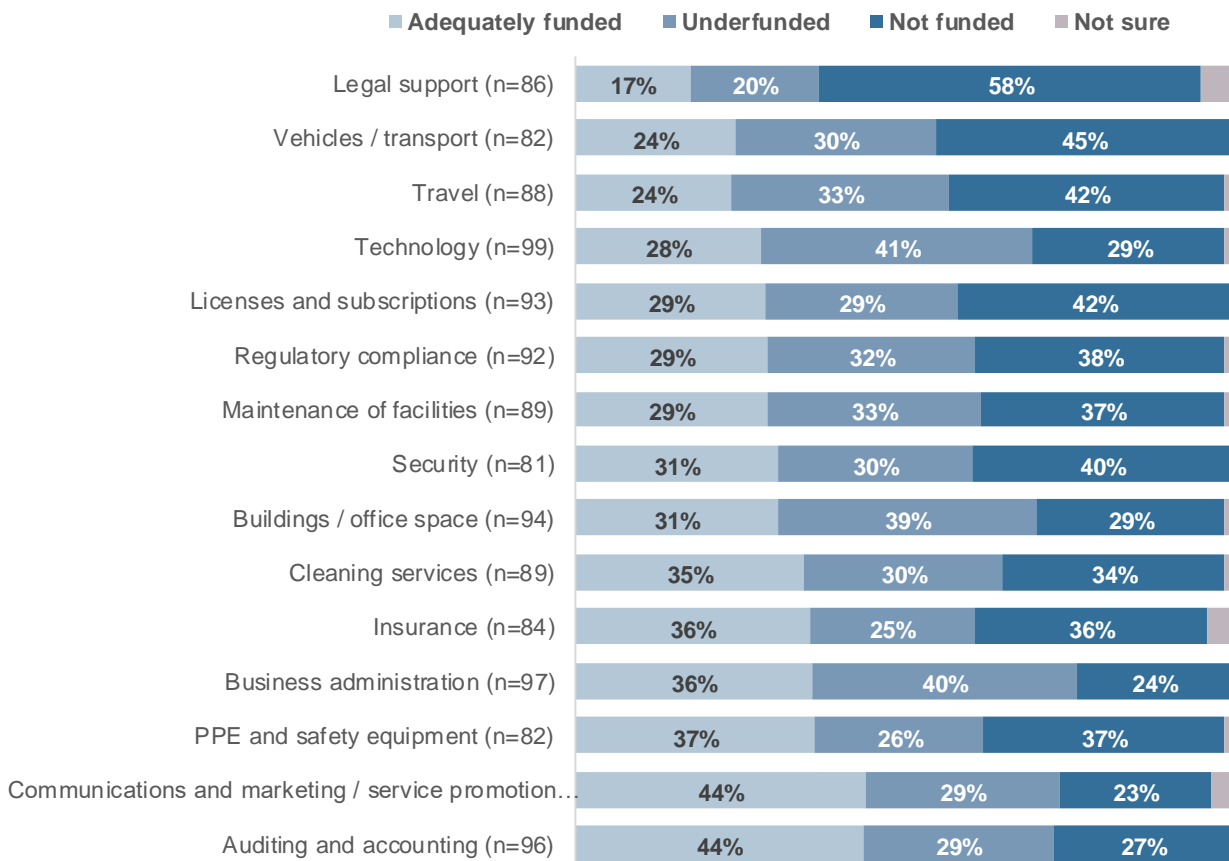
Note: rates are the hourly rates applying from 1 July and 1 December in each year, at Paypoint 1 of each level, for a full or part time social and community services employee in the ACT, sourced from <https://calculate.fairwork.gov.au/FindYourAward>

Figure C.5 Regional Internet Vacancy Index information for community service occupations in the ACT



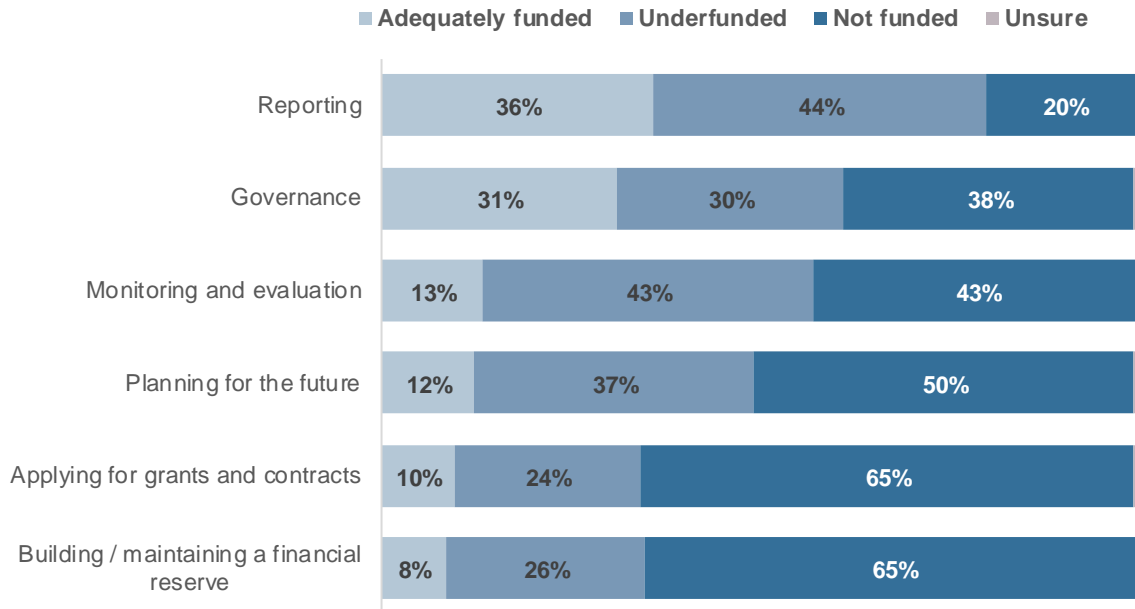
Source: <https://lmip.gov.au/default.aspx?LMIP/GainInsights/VacancyReport>, downloaded October 2021. The Internet Vacancy Index sources information from the three major job boards.

Figure C.6 Perspectives on coverage of infrastructure costs



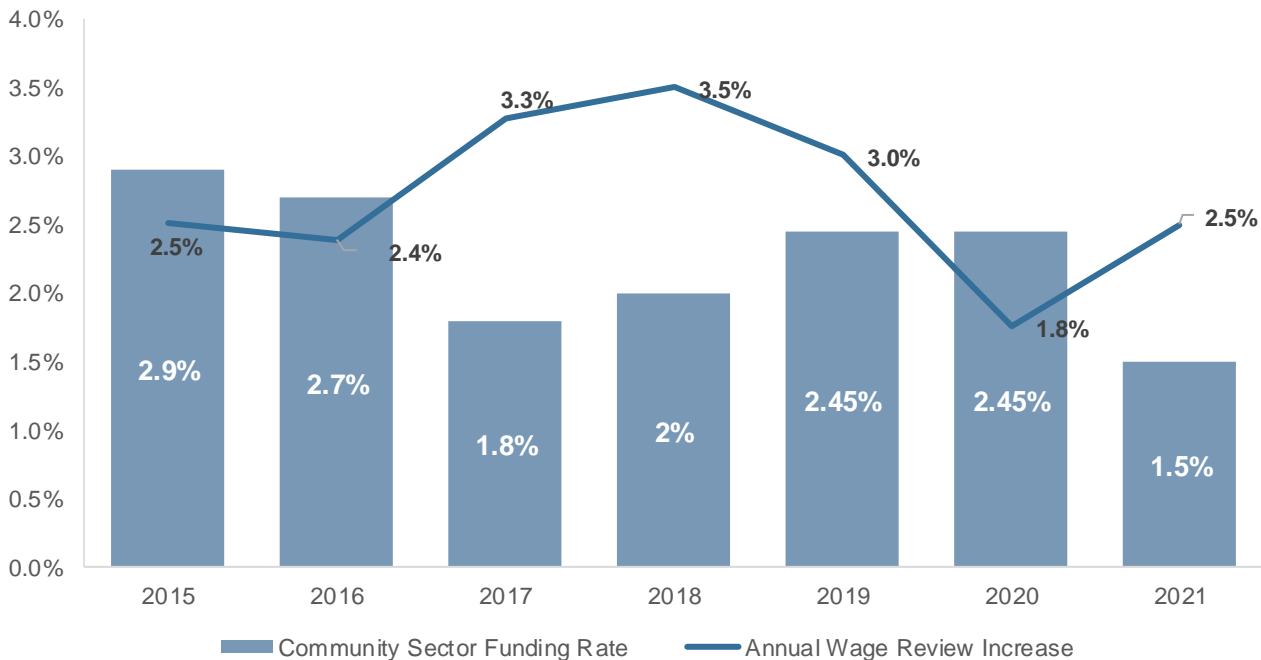
Source: ACT Service Costing Survey, 2021

Figure C.7 Perspectives on coverage of evaluation, reporting and governance related costs



Source: ACT Service Costing Survey, 2021

Figure C.8 Percentage increase in SCHADS award rates resulting from Annual Wage Review, and Community Sector Funding Rate, 2014-15 to 2020-21



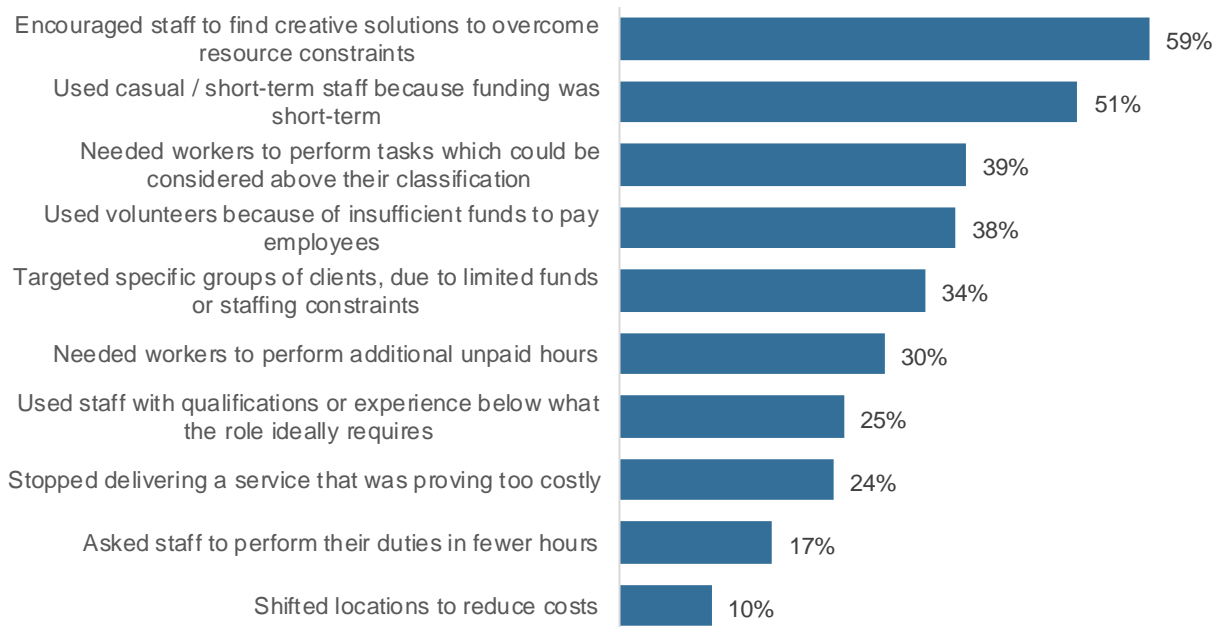
Source: <https://calculate.fairwork.gov.au/FindYourAward>.

Figure C.9 Main considerations when applying for ACT Government funding



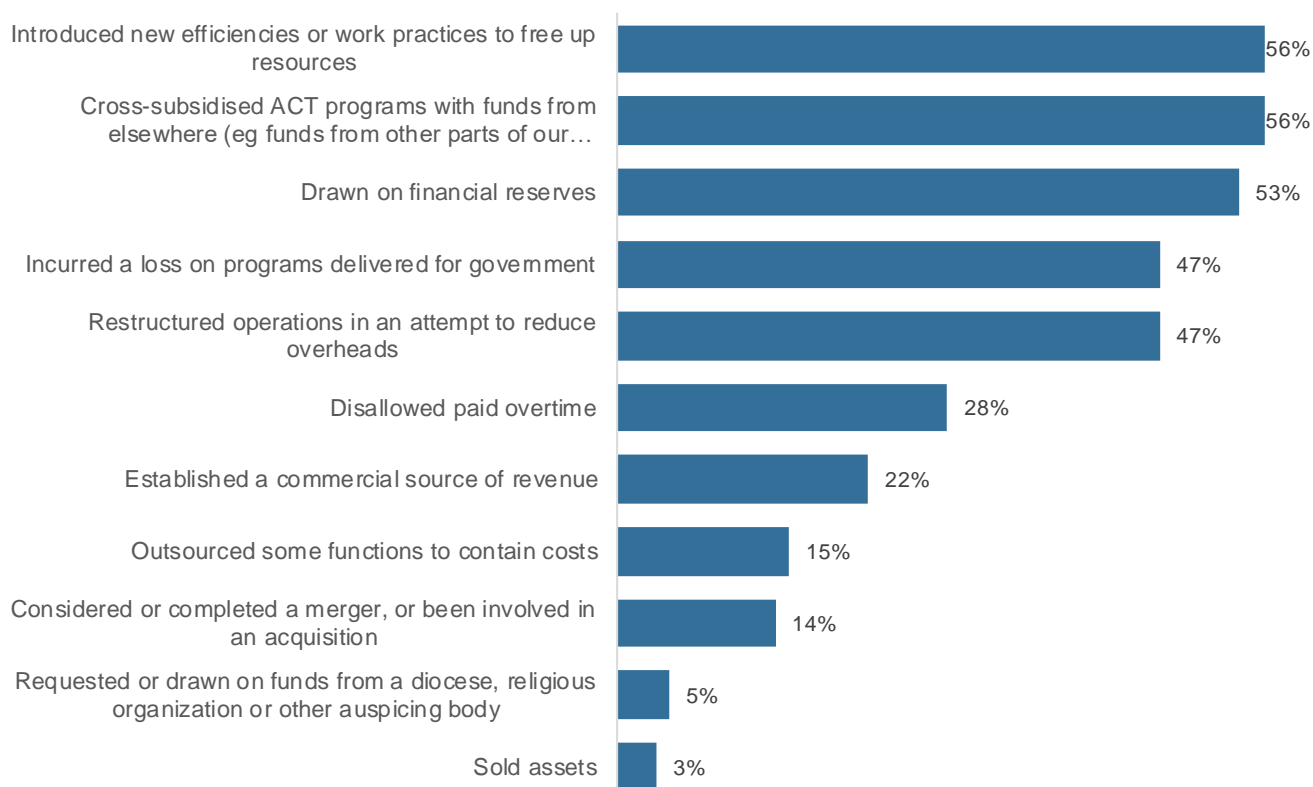
Source: ACT Service Costing Survey, 2021

Figure C.10 In the last three years, which of these staffing and service delivery strategies have been used by your service to help manage your ACT government funding?



Source: ACT Service Costing Survey, 2021

Figure C. 11 In the last three years, which of these financial strategies have been used by your service to help manage your ACT government funding?



Source: ACT Service Costing Survey, 2021

Tables

Table C. 1 Approximate proportion of organisations' total annual income which came from each source in 2020-2021, mean and median, by main ACT funding source

	CSD (n=48)		ACTHD (n=36)		Other Directorate (n=4)		All (n=88)	
	Mean (%)	Median (%)	Mean (%)	Median (%)	Mean (%)	Median (%)	Mean (%)	Median (%)
ACT Government funding	44.0	40.0	53.7	62.5	60.8	70.0	48.8	50.0
Australian Government funding	15.4	8.0	19.3	15.0	7.8	0.5	16.6	10.0
Other government funding	6.6	0.0	4.6	0.0	0.3	0.0	5.5	0.0
Philanthropy	8.4	0.0	7.3	1.9	25.8	5.0	8.7	0.0
Commercial	11.2	0.0	8.2	2.0	5.0	0.0	9.7	0.0
Other	14.3	0.0	6.9	0.0	0.5	0.5	10.6	0.0

Source: ACT Service Costing Survey, 2021

Table C. 2 Community Services Directorate Spending on Grants and Purchased Services, 2015-16 to 2019-20.

	Output Class 1 – Disability and Therapy Services (NDIS implementation from 2017-18)		Output Class 2 Strategy, Participation and Early Intervention		Output Class 3 - Child and Youth Protection Services		Total grants and purchased services	
	\$	Annual % change	\$	Annual % change	\$	Annual % change	\$	Annual % change
2019-20			35,467	13%	52,512	11%	87,979	-48%
2018-19	91,281	2%	31,285	3%	47,348	7%	169,914	4%
2017-18	89,750	-15%	30,264	-5%	44,081	0%	164,095	-9%
2016-17	105,047	89%	31,774	27%	44,293	24%	181,115	56%
2015-16	55,681		24,936		35,852		116,469	

Source: Financial statements, CSD Annual Reports, <https://www.communityservices.act.gov.au/publications/annual-reports>

Table C. 3 Change in employment expenses as a proportion of total expenses from 2015 to 2019, community service charities based in the ACT

Change in employment expenses, as a percentage of total expenses, 2015 to 2019	n	% of charities
Fell by more than 5 percentage points	11	13%
Fell by 2 to 5 percentage points	16	18%
Stayed within 1 percentage point	17	19%
Increased by 2 to 5 percentage points	15	17%
Increased by 6 to 10 percentage points	15	17%
Increased by 11 to 20 percentage points	10	11%
Increased by 20 or more percentage points	4	5%
	88	100%

Source: Annual Information Statements for 2015 and 2019 provided to the ACNC. These 88 were those for which information was available in both years, from a sample of 105 relevant charities based in the ACT who received government funding and employed staff. Data downloaded from data.gov.au.

Table C. 4 Indexation rates for community services funding by jurisdiction, 2020-21

	ACT	WA	NSW	VIC	TAS	QLD	SA
2020-21	1.50%	1.67%	1.75%	2.0%	2.2%	2.38%	2.5%

Note: Information provided by ACTCOSS. Information for NT was not available

Table C. 5 Perceptions of whether or not funds were indexed each year

	CSD Core funds (n=41)	CSD Project funds (n=9)	Health Core funds (n=45)	Health project funds (n=10)	Other (n=8)	All (n=100)
Indexed	85%	22%	92%	50%	50%	77%
Not indexed	5%	56%	0%	50%	38%	13%
Not sure	10%	22%	8%	0%	13%	10%
All	100%	100%	100%	100%	100%	100%

Source: ACT Service Costing Survey, 2021

Table C. 6 Perspectives on coverage of employment-related costs, funding received from Community Services Directorate

		Not funded	Underfunded	Adequately funded	Not sure	Total
Costs of recruiting and inducting new staff	n	19	15	13	0	47
	%	40%	32%	28%	0%	100%
Employing staff at appropriate classifications	n	2	26	16	2	46
	%	4%	57%	35%	4%	100%
Employing enough staff	n	4	34	8	0	46
	%	9%	74%	17%	0%	100%
Professional / clinical supervision	n	13	27	4	0	44
	%	30%	61%	9%	0%	100%
Internal (line management) supervision	n	7	27	11	0	45
	%	16%	60%	24%	0%	100%
Backfilling when staff are absent	n	24	18	2	0	44
	%	55%	41%	5%	0%	100%
Professional development and training	n	10	28	9	0	47
	%	21%	60%	19%	0%	100%
Workplace health and safety, including incident reporting	n	11	23	12	1	47
	%	23%	49%	26%	2%	100%
Managing volunteers	n	16	12	5	0	33
	%	48%	36%	15%	0%	100%

Source: ACT Service Costing Survey, 2021

Table C. 7 Perspectives on coverage of employment-related costs, funding received from ACT Health Directorate

		Not funded	Underfunded	Adequately funded	Not sure	Total
Costs of recruiting and inducting new staff	n	21	16	10	1	48
	%	44%	33%	21%	2%	100%
Employing staff at appropriate classifications	n	3	24	21	0	48
	%	6%	50%	44%	0%	100%
Employing enough staff	n	5	32	12	0	49
	%	10%	65%	24%	0%	100%
Professional / clinical supervision	n	16	17	8	1	42
	%	38%	40%	19%	2%	100%
Internal (line management) supervision	n	10	22	16	0	48
	%	21%	46%	33%	0%	100%
Backfilling when staff are absent	n	27	13	8	0	48
	%	56%	27%	17%	0%	100%
Professional development and training	n	16	19	13	0	48
	%	33%	40%	27%	0%	100%
Workplace health and safety, including incident reporting	n	10	20	18	0	48
	%	21%	42%	38%	0%	100%
Managing volunteers	n	15	14	11	0	40
	%	38%	35%	28%	0%	100%

Source: ACT Service Costing Survey, 2021

Table C. 8 Leaders' perspectives on their capacity to cost services, by annual income

		Under \$1m (n=34)	\$1m to \$5m (n=25)	Over \$5m (n=27)	All (n=86)
Our organisation has the information we need to accurately cost services	Disagree	9%	20%	4%	11%
	Neutral / not sure	21%	16%	15%	17%
	Agree	71%	64%	82%	72%
	All	100%	100%	100%	100%
Our organisation has the time to analyse and determine costs	Disagree	38%	52%	15%	35%
	Neutral / not sure	32%	12%	15%	21%
	Agree	29%	36%	70%	44%
	All	100%	100%	100%	100%
Our organisation has the internal expertise needed to accurately cost services	Disagree	21%	32%	0%	17%
	Neutral / not sure	18%	12%	15%	15%
	Agree	62%	56%	85%	67%
	All	100%	100%	100%	100%
Our organisation has sought external support to help understand our costs	Disagree	47%	52%	44%	48%
	Neutral / not sure	27%	8%	4%	14%
	Agree	27%	40%	52%	38%
	All	100%	100%	100%	100%
We understand how other community organisations cost their services	Disagree	47%	60%	37%	48%
	Neutral / not sure	41%	28%	26%	33%
	Agree	12%	12%	37%	20%
	All	100%	100%	100%	100%

Source: ACT Service Costing Survey, 2021

Table C. 9 Staffing and service delivery strategies used in the last three years to help manage ACT Government funding, by main ACT funder

	CSD (n=48)	ACTHD (n=36)	Other (n=4)	All (n=88)
Encouraged staff to find creative solutions to overcome resource constraints	56%	61%	75%	59%
Used casual/ short-term staff because funding was short-term	48%	56%	50%	51%
Needed workers to perform tasks which could be considered above their classification	27%	53%	50%	39%
Used volunteers because of insufficient funds to pay employees	33%	39%	75%	38%
Targeted specific groups of clients, due to limited funds or staffing constraints	25%	47%	25%	34%
Needed workers to perform additional unpaid hours	21%	42%	25%	30%
Used staff with qualifications or experience below what the role ideally requires	17%	39%	0%	25%
Stopped delivering a service that was proving too costly	21%	25%	50%	24%
Asked staff to perform their duties in fewer hours	19%	17%	0%	17%
Shifted locations to reduce costs	10%	11%	0%	10%

Source: ACT Service Costing Survey, 2021

Table C. 10 Financial strategies used in the last three years to help manage ACT Government funding, by main ACT funder

	CSD (n=48)	ACTHD (n=36)	Other (n=4)	All (n=88)
Cross-subsidised ACT programs	54%	56%	75%	56%
Introduced new efficiencies or work practices to free up resources	48%	69%	25%	56%
Drawn on financial reserves	54%	47%	100%	53%
Restructured operations in an attempt to reduce overheads	46%	47%	50%	47%
Incurred a loss on programs delivered for government	48%	44%	50%	47%
Disallowed paid overtime	23%	36%	25%	28%
Established a commercial source of revenue	15%	31%	25%	22%
Outsourced some functions to contain costs	10%	19%	25%	15%
Considered or completed a merger, or been involved in an acquisition	10%	14%	50%	14%
Requested or drawn on funds from a diocese, religious organization or other auspicing body	4%	6%	0%	5%
Sold assets	2%	6%	0%	3%

Source: ACT Service Costing Survey, 2021

Table C. 11 Proportion of organisations taking particular actions when applying for ACT Government funds

	Receives funds from CSD only (n=39)	Receives funds from ACTHD only (n=20)	Receives funds from CSD and ACTHD (n=27)	Receives funds from other ACT agency only (n=2)	All (n=88)
Decided not to apply for a grant or tender because the funding available wouldn't cover costs	56%	45%	81%	50%	61%
Applied even though it required our organisation to cross-subsidise the activity	44%	50%	81%	0%	56%
Applied even though we thought the funding was too low	41%	30%	67%	0%	45%
Participated in a consortia or joint bid, to help achieve cost efficiencies	28%	20%	52%	50%	34%
Decided to offer services at below-cost to ensure we would be competitive	21%	10%	44%	0%	25%

Source: ACT Service Costing Survey, 2021