

## Sector Sustainability Project Interim Evaluation Report - May 2024

### Introduction

The 2023-2024 Sector Sustainability Project is the start-up phase of a Human Services System Reform process implemented through the Sector Sustainability Program 2023-2028.

The Sector Sustainability Program is part of the ACT Government's response to the Counting the Costs Report that outlined the rising demand and rising costs across the community sector but noted that a simple increase in funding alone would not result in a more sustainable sector.

When announcing the Sector Sustainability Program the ACT Government said it was:

“a new program and the first in a series of steps the ACT Government will take on moving to a sustainable resourcing and relationship model with the community sector in the ACT. The Sector Sustainability Program will contribute to the ACT Government and the community sector partners together ensuring funding adequately reflects the real cost of services, as well as the impact of increased demand.”

Objectives of the 2023-2024 Sector Sustainability Start-Up Project (SSP) are to:

- Implement recommendations that Community Sector and ACT Government agreed would improve the sustainability of NFP delivered human services
- Provide advice (policy and budget) on activity and investment needed in 2025-2028 to further progress sustainability of the partnership between NGOs and the ACT Government

The 2023-2024 Project was scoped to co-design practical measures that could be delivered within current funding arrangements to progress the Counting the Costs Recommendations and identify further funding and additional advice needed to fully implement the recommendations. A summary of the recommendations, ACT Government commentary regarding the recommendations and the 2023-2024 activities are provided at Attachment A.

This is an interim evaluation report reflecting on the first 6 months of project activity. As such, it identifies progress rather than completion of activities. Critically, it also identifies barriers that are or have potential to impact success of the sector sustainability project in the short, medium and longer term.

### *Theory of Change*

This theory of change has been developed to guide the Sector Sustainability Program, comprising the 2023-2024 Start-Up Project and the 2025-2028 further activities:

**IF** we facilitate a shift in the mindset, relationships, connections and power dynamics between the ACT Government and NGO partners in the delivery of human services

**THEN** a sustainable resourcing and relationship model for the community sector will be developed that ensures individuals, families and the community will receive the services and support that meet their needs

**BECAUSE** there have been structural changes in policies, practices and resource flows, that will counteract the Starvation Cycle and progress the recommendations in the Counting the Costs report

## Sector Sustainability Project 2023-2024

**OUTCOME** will be a more diverse, vibrant and sustainable community sector better able to partner with ACT Government to deliver on objectives to the human service reform agenda and contribute to ACT Wellbeing Domain outcomes

*Summary of progress July 2023 – January 2024*

Objective	Traffic Light Indication of Progress	Further comment
Engagement in SSP activities	Strong NGO and ACT Government engagement.	Potential to widen engagement of specialist NGOs and increase engagement of ACT Gov central agencies.
Understanding of actions required to counteract the Starvation Cycle – <i>this is an indicator of a <b>shift in the Mindset</b> guiding the partnership between ACT Gov and NGOs delivering human services</i>	Understanding of Starvation Cycle has increased.	However, while initial commissioning investment phases are limited to existing funding envelope, evidence of decisions addressing the starvation cycle is limited.
Moving from in-principle acceptance of recommendations to enacting process, policy and resource changes that improve sustainability of NFP delivered human services – <i>this is a measure of <b>changes in relationships, connections and power dynamics</b> between ACT Gov and NGOs delivering human services</i>	ACT Government resourcing for the Community and government Co-Leads is enabling co-design of measures that could be implemented.	It is too early for process, policy and resource changes to have been enacted but concerns about commitment to enact recommendations are held.
Evidence of <b>moving to a sustainable relationship and resourcing model</b> that ensures individuals, families and the community will receive the services and support that meet their needs	Revised Community Sector Indexation formula adopted in 2023-2024 onwards provides higher indexation. New Human Services Transition Policy recognises NGOs need to retain funds to build reserves to meet legislative and regulatory obligations.	It is too early to fully understand impact of the revised indexation formula or to see evidence of changes in practice that ensure NGOs can retain funds to build reserves.
Evidence of <b>structural changes in policies, practices and resource flows</b>	Unsustainable levels of funding, inefficient funding arrangements and inability to expand to meet growth in demand or reorient to prevention and early intervention are being entrenched during some current investment processes	Strategies to achieve structural changes inside the life of new longer-term agreements are yet to be tested.

## Sector Sustainability Project 2023-2024

### *Structure of this Report*

This is the first evaluation report for the Sector Sustainability Project. Consistent with the design of the evaluation framework for sector sustainability (see Attachment A), the information provided below covers:

1. Data on engagement of ACT Government and NGO partners in SSP activities
2. Progress on Counting the Costs Recommendations
3. Formative outcomes – what are we learning about how to improve delivery of the SSP?
4. Summative outcomes – what is the SSP achieving?

### **Data collection to generate Evaluation Findings**

Data was collected from activity reports, from the community-based project team, the government based co-lead and from NGO representatives (via an online poll conducted in December 2023).

### Engagement

The number of instances of interaction and diversity of perspectives that have contributed to the SSP is summarised below.

Engagement Activity	Email invitation to participate	Met with Project Lead to contribute	Participated in Activity workshop	Email activity Reports
Project Constituency				
Peak Body – lived experience	8	2	3	5
Peak Body – service providers	20	5	13	27
Aboriginal Community Controlled Organisation	5	3	1	9
Generalist NGO	9	5	21	27
Specialist NGO	8	4	6	20
Union/Professional Association	1	2		1
Environmental Group	3	3	1	3
ACT Government Officials	19	3	12	16
Sounding Board Members	49	3	11	20

## Sector Sustainability Project 2023-2024

Governance Committee	22	3 (Meetings with Chair)	5	12
Other		Capital Health Network x 1		
<b>TOTAL</b>	<b>144</b>	<b>31</b>	<b>73</b>	<b>140</b>

## Sector Sustainability Project 2023-2024

Engagement and consultation have included:

- Formal communication channels already in place (eg Commissioning Conversations and ACT Government Sector, Sustainability Program webpage)
- Email distribution lists created for the SSP
- Government human services distribution lists
- Existing community sector and ACT Government meetings and forums
- Direct dialogue with NGO and Government stakeholders as requested by them
- Content framing and refinement through Briefing Papers and Direct Dialogue
- Sharing perspectives and building shared understanding through specific workshops (Costing tools and resources, Funding efficiencies, Evaluation)
- Surveys and other data collection activities to assess progress in delivering Project outcomes

Online poll conducted with NGOs in December 2023 (n=42):

Questions	Response Options	I did not know about it	I knew about it but chose not to engage	I engaged in this activity
Did you receive information and/or updates on Project via the Sector Sustainability Program webpage, Commissioning Conversations, CSD Community Sector Update webinar or Commissioning Update?		59%	6%	35%
Did you read a Briefing Paper or Project Activity Report?		41%	13%	47%

The results of this poll indicate:

- There are a significant group of people highly engaged, but more people choosing not to engage with the project
- We need to increase visibility of opportunities to engage with and to get information about the SSP
- Email updates are most likely to be read when they focus on outcomes of project activities

Anecdotally, the co-leads hear that people are time poor and that engagement in the project is not always a priority. The sounding board is proving to be an effective mechanism to reach interested stakeholders and the flexibility to participate through a planned session or separately with co-leads has been welcomed.

### Progress on implementation of recommendations from Counting the Costs

Significant progress has been made to position the ACT Government to fulfill its in-principle support for many of the recommendations of Counting the Costs. As noted in the summary, the extent to which the Government commitment will be achieved depends on overcoming any barriers to full implementation of the measures that have been identified.

## Sector Sustainability Project 2023-2024

### *Rec 1 – Adopt a revised approach to indexation*

- ACT Government changed the Community Sector Indexation formula that was applied from 2023-2024 onwards to: 20% CPI + 80% National Wage Case/Wage Price Index = Annual indexation
- Consistent inclusion of the national wage case outcome has led to 3 consecutive years of significantly higher indexation payments to NGOs.
- The SSP has commenced working with NGOs to assess the impact of the revised formula on alignment of indexation with annual increases in direct and indirect costs of providing human services.
- Research on the suitability of current approaches to indexation has been published<sup>1</sup> after the release of the ACT Government Response to the Counting the Costs Report. This research indicates that further changes to indexation will be needed to fulfill the ACT Government objective of ensuring funding adequately reflects the real cost of services.

### *Rec 2 - Review ACT funding streams to ensure full cost coverage*

- The SSP Co-Leads have provided advice to the ACT Government Budget processes on evidence of gaps in full cost coverage

### *Rec 4 - Build sector capacity to accurately cost services*

- The role of the 2023-2024 Project is to work with the ACT Government and NGOs to develop tools and guidance that will support accurate costing of services
- The outcomes from consultation with NGOs and ACT Government on progressing these recommendations were outlined in this [Report on Consultation Findings and Next Steps](#) which include development of the following tools and guidance materials:
  - A **glossary of terms** for pricing, costing and benchmarking workforce, program delivery and indirect costs that leads to shared understanding and common language between NGOs and ACT Government.
  - Categories of costs to including in funding proposals
  - Fit for purpose guidance on defining and assessing value for money
  - Guidance on Sharing risks in the partnership between funders and providers, especially when full funding not available to meet community needs
  - **Benchmarks for allocations to workforce, program costs and indirect costs**, based on ACT Government, private sector and NGO data, Australian and International research on financially healthy organisations, and good practice examples from Australian and international jurisdictions in which governments commission services from NGOs
  - **Policy advice on the use of benchmarks** by both Government and NGOs. Eg should Government adopt a minimum benchmark that must be met?
  - **Suitable existing costing tools/ templates**, that could be used by ACT Government and NGOs when developing and assessing funding proposals
  - **Learning and development resources** that will support use by NGOs and ACT Government of the Glossary of Terms, benchmarking and costing tools.

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<sup>1</sup> [human-services-and-cost-indexation-methodologies-in-australia.pdf \(uwa.edu.au\)](#)

## Sector Sustainability Project 2023-2024

- Awareness raising and capacity building regarding fully covering the costs of NGO/ACT Government partnerships has been incorporated into presentations to NGO Leadership Teams and Boards, and briefings to ACT Government Senior Officials
- Dialogue and engagement with NGO and ACT government staff is ongoing
- Outcomes of this work will be included in a Knowledge Hub before the end of 2024

### Rec 3 - Continue to encourage efficiencies, to reduce cost pressures

- The table below outlines the funding efficiencies listed in the ACT Government Response to the Counting the Costs Recommendations and shows how the SSP is progressing these measures:

<b><i>Improved efficiencies listed in the ACT Government Response to Counting the Costs Recommendations (February 2023)</i></b>	<b><i>SSP activities to progress these efficiency measures</i></b>
<i>Provision of longer-term contracts with appropriate review points built-in</i>	SSP monitoring length of contracts following completion of Commissioning investment cycles
<i>Changes to contract management arrangements</i>	Included in briefing materials and consultations in October 2023 Workshop and follow-up discussions
<i>Efficiencies for organisations that are regulated by the Office of the Human Services Regulator</i>	Will be considered after the whole of system baseline efficiency measures are developed
<i>Sector and government identify and explore opportunities for other efficiencies</i>	Included in briefing materials and consultations in October 2023 Workshop and follow-up discussion
<i>Consideration of a change in approach to return of underspends which may support sector sustainability.</i>	Input provided on NGO need to build reserves and to retain reserves to meet regulatory and legislative obligations and requirements during development of the ACT Government Human Services Transitions Framework and Policy
<i>Impact of payment schedules</i>	Included in briefing materials and consultations in October 2023 Workshop and follow-up discussions
<i>Opportunities to shift to focusing less on costs and more on value.</i>	Work on more fit for purpose guidance material is included in the activities to progress Recommendations 2 and 4
<i>Opportunities to streamline procurement processes.</i>	Input provided by SSP through procurement forums inside ACT Government on opportunities to streamline procurement information provision requirements across Directorates  When ACT Government procurement reforms have been finalised, the SSP will provide advice on opportunities to streamline procurement processes

- Human Services Transition Policy recognises that ‘organisations have a responsibility to generate and hold reserves that enable them to meet their legal obligations, including during

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a service transition. The ability to retain underspends, that are not a result of underperformance, is one way for NGOs to achieve this’.

- By July 2024 the ACT Government will publish the number of Human Services Programs that have a funding arrangement that includes potential to extend beyond 3 years (eg 3+4 years), and the number and name of Programs (administered through contracts and grants) that remain on shorter term funding arrangements.
- A co-designed list of potential efficiencies has been identified:
  - Improve consistency of funding management through updating the 2012 Funding Managers Guide.
  - As a general principle implement payment of grants and contracts via two payments a year instead of quarterly
  - Use consistent funding instruments – consistent clauses in Deeds of Grant, Service Funding Agreements and Schedules
  - Remove requirement for wet ink signatures where this is not prohibited by legislative requirements
  - Streamline acquittal processes by implementing organisation wide acquittal with each stream of funding provided as a separate program line in audit instead of program specific and separate audit
  - Enable adoption of Recipient Created Tax Invoice to reduce need for NGOs to generate invoices for scheduled payments
  - Timeframes for implementation of funding efficiencies are being explored.
    - Initial expectations that many efficiencies can be implemented within current resourcing have not been met
    - Resourcing inside ACT Government to implement funding efficiencies will need to be included in the design and funding of the Sector Sustainability Program to 2028.
  - Identification of actions that can be taken within existing delegations and policy settings:
    - Development of additional guidance material to support shift to a more fit-for-purpose assessment of Value for Money of human services proposals is underway, including:
      - Assessing effectiveness equity, embeddedness, and efficiency of the proposal prior to assessment of economic factors
      - Assessing contribution/impacts of proposal for intended beneficiaries and for the human service ecosystem as a whole
    - Progress conversation with Human Services Directorates on streamlining procurement of human services, in line with changes to ACT Government procurement framework announced in 2023 [[Procurement Transformation 2022-2025](#)]

### **Formative Evaluation Findings – how can we improve delivery of the SSP?**

#### *What is working?*

- SSP Workshops have provided an opportunity to develop new insights and shared understanding within and across community and government sectors
- Governance Committee is overseeing progress and holding project to account for delivering improvements in policy, procedures and resources

#### *What should change during implementation (focus area, method, timing)?*



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- Need to address barriers in ACT Government to visibility of, engagement with and prompt decision making to enact co-designed changes to policy, procedures and resourcing
- Need to ensure the SSP drives practical progress on implementation of Recommendations 2, 3 and 4 alongside development work on Recommendations 1, 5 and 6 scheduled for February-May 2024
- Need to maximise engagement with and leveraging of existing ACT Government work on data and evidence when scoping activities to progress Recommendations 5 and 6, prior to defining or investing in additional data and evidence of impact work

*What is missing from the project/program (activity, information, engagement)?*

- Need to develop a template for updating Governance Committee members on the activities, progress and barriers to implementation of SSP to ensure prompt decisions on addressing project risks
- Need to grow engagement of specialist services, Aboriginal Community Controlled Organisations and Peak Bodies representing priority population groups

*What are the enabling factors and barriers? (in sector, in government)*

Enabling factors:

- Improved understanding of the Non-Profit Starvation Cycle
- CSOG Briefings & Approvals

Barriers:

- Lack of consistent guidance material across all human services Directorates for ACT Government Officials and NGO staff managing funding relationships
- Lack of mechanism for shared decision-making by ACT Government and NGOs
- Lack of capacity to share power across Govt/NGO structures
- Knowledge, engagement & authorising environment within ACT Government for changed approach to processes, policy and resourcing

### **Summative Evaluation Findings – What is the SSP achieving?**

*Is program meeting objectives?*

The SSP has been able to generate positive engagement and useful insights through a range of consultation and clarification activities.

There has been good progress on co-design of changes in policy and procedures to implement the Counting the Costs Recommendations 2, 3 and 4, but there has been limited progress on adoption of these changes by ACT Government, so these changes are not currently impacting on funding administration practices.

There has been limited progress on ensuring funding of human services currently being delivered adequately reflects the real cost of services, as well as the impact of increased demand. This is because:

- The investment phases of current commissioning cycles are constrained by existing funding envelopes and commissioning evidence has yet to be demonstrated as effective in informing further investment through the ACT Government budget cycle

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- Work on data sources that will increase understanding of unmet need and increased demand is scheduled to commence in Phase C of the SSP (February-May 2024), and should contribute to the wider ACT Government agenda to develop data frameworks and governance arrangements

*Are stakeholders seeing outcomes they value?*

Limited progress on this measure.

- The SSP is competing for attention in a busy work program for people in funding management roles in ACT Government and in NGOs, and is competing for decision-making focus by Senior Executives in NGOs and in ACT Government. In this busy environment, more urgent priorities – eg ACT Gov Officials completing Investment Phase of Commissioning, and NGOs securing funds for future service delivery – are limiting the time available for all stakeholders to focus on implementation of SSP priorities for action
- Additional resources for implementation have not been available during this phase of the project.
- Commissioning is leading to better understanding of unsustainable levels of funding but has to date achieved minimal change in funding levels
- Inefficient funding arrangements are being extended during current procurement processes, because funding managers are not authorised/resourced to implement proposed changes recommended by the SSP in the current investment phases.
  - It is possible to adjust longer contracts through variations.
  - Variations that implement sustainability efficiencies have not yet been tested.

*Which activities are facilitating most progress towards preferred end state of Non Government Organisation/ACT Government partnership?*

- NGO leaders have reported they value using the Starvation Cycle to explain the causes and impacts of challenges in the sustainability of human service provision by NGOs, and to envisage the changes in policy, procedures and resourcing needed to improve the sustainability of the partnership between ACT Government and NGOs in design and delivery of human services.
- Both ACT Government and NGO partners value a dialogue within and between NGO and ACT Government partners in design and delivery of human services that generates new/wider perspectives on the challenges, risks and opportunities to improve sector sustainability through closer partnerships and better understanding the needs of our service delivery partners

ATTACHMENT A

Counting the Costs Recommendations (2022)	ACT Government commentary on recommendation in Government Response (2023)	Sector Sustainability Program Start Up Project 2023-2024
<p><u>Rec 1 Adopt a revised approach to indexation</u></p>	<p>ACT Government has considered in depth the proposed indexation formula and a number of other options and has determined that the application of CSI will be considered annually based on a revised methodology that applies the Wage Price Index or Award Wage changes to 80% of the CSI with the remaining 20 percent based on Consumer Price Index. This is consistent with the practice over the last two financial years.</p>	<p>SSP will monitor impact of the revised formula on the coverage of year on year increases in costs.</p> <p>SSP will review emerging literature to provide ongoing advice to ACT Government on evidence base that can inform indexation formula.</p>
<p><u>Recommendation 2: Review ACT funding streams to ensure full cost coverage</u></p> <p>Adjusting the indexation formula will not rectify the gaps which are ‘baked into’ existing funding levels. Without boosting funding levels, under-resourcing will be perpetuated.</p>	<p>The Government recognises that its intention to review the CSI rate and its commitment to leveraging commissioning processes to inform future service delivery decisions provides a framework which will, over time, address the ‘baked in’ gap.</p> <p>The Starvation Cycle is a recognised worldwide phenomenon of deeply ingrained behaviours based on three intertwined factors: A. Funders have an inaccurate understanding of true cost; B. NFPs feel pressure to conform – especially given a power imbalance between grantor and grantee; C. NFPs sacrificing funding for organisational infrastructure (e.g., staffing, information technology, finance, governance).</p> <p>Research shows that Australian businesses on average spend on indirect costs 1.8–3.6 times more per employee than NFP organisations. This leaves NFPs both less efficient and more vulnerable to external shocks.</p> <p>Through commissioning, and stronger, more trusting relationships, there is an opportunity to have honest discussions about the true and full cost of service delivery. This will inform arrangements for the investment stage of commissioning processes, including any competitive market testing, to ensure that government is not under-resourcing the services it funds.</p>	<p>The SSP will develop guidance material to build NGO and ACT Government shared agreement on what are the full range of functions and costs that need to be covered by Program funding</p> <p>SSP will contribute advice to inform ACT Government Budget considerations</p>

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<p><u>Recommendation 3: Continue to encourage efficiencies, to reduce cost pressures.</u></p>	<p>Human Services Commissioning objectives - Service stability, access and quality whilst designing and implementing longer and more flexible funding arrangements, procurement that uses a co-operative, networked approach involving government and non-government providers</p> <p>Provision of longer-term contracts with appropriate review points built-in.</p>	<p>SSP monitoring the length of funding agreements following completion of a Commissioning cycle Investment Phase</p>
	<p>Consideration of a change in approach to return of underspends which may support sector sustainability</p>	<p>SSP will contribute to development of, and monitor implementation and impact of, the ACT Government Human Services Transitions Policy</p>
	<p>Changes to contract management arrangements Impact of payment schedules Significant efficiencies in NGO data collection, analysis and reporting could be achieved through this project</p>	<p>SSP to work with NGOs and ACT Government to identify changes in contract management arrangements, payment schedules and reporting requirements that will provide efficiency gains</p>
	<p>Opportunities to shift to focusing less on costs and more on value</p>	<p>Included in work on progressing Rec 4 - build sector capacity to accurately cost services</p>
	<p>Opportunities to streamline procurement processes</p> <p>Opportunities for efficiencies linked to other ACT Government system reform, such as through the Procurement Reform Taskforce, will also be explored.</p>	<p>SSP will work with NGOs and ACT Directorates funding NGOs to deliver ACT Government Human Services Programs to identify procurement efficiencies.</p>
<p><u>Recommendation 4: Build sector capacity to accurately cost services</u></p>	<p>In developing the SSP, the ACT Government agrees to work with the sector to initially scope and then develop pricing tools and guidance that support sector organisations to accurately cost services.</p> <p>The WDT fund has enabled the CYFSP to deliver several projects enabling uplift across the whole sector and to achieve better purchasing power for training and projects to build the capability of the sector and enable consistent approaches across the sector. The success of the WDT will inform development of the SSP during the start-up phase.</p>	<p>SSP will commission expert advice on tools and guidance to support full cost pricing by NGOs</p> <p>SSP Co-Leads will co-design with NGOs and ACT Government tools and resources to support accurate costing of services.</p>
<p><u>Recommendation 5: Boost funding for areas of unmet need</u></p>	<p>Understanding and responding to changing demand is a key focus of commissioning activities across CSD and ACTHD and this is also reflected in other existing government strategies. Commissioning also entails a</p>	<p>SSP will commission expert advice to improve data collection, analysis, reporting and sharing to better</p>

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	<p>stronger emphasis on the delivery of outcomes and prioritising services to meet community need.</p> <p>The ACT Government supports a shift to focusing on outcomes, including improved outcomes for vulnerable groups; a focus on person centred care; improved integration of services; collaboration, codesign and continuous improvement; services that are responsive and integrated; early intervention in life, illness and episode; whole of person care; reduced self-harm and increased suicide prevention.</p> <p>2021 Census data shows that along with overall population growth, the ACT has also seen the number of families grow from 93,397 in 2011 to 119,752 in 2021, and the number of children and young people growing from 121,092 in 2011 to 143,548 in 2021. In addition, the regional composition of the ACT has changed since many existing services were designed, with new regional hubs including the Molonglo Valley and new Gungahlin suburbs requiring existing services to stretch offerings to meet the needs in these regions.</p> <p>In line with commitments under national and local agreements, the ACT Government continues to support the expansion of the ACCO sector to increase the number of services which are led and delivered by the Aboriginal and Torres Strait Islander community.</p> <p>Through commissioning, the ACT Government, community sector partners and people with lived experience will work collaboratively to undertake comprehensive needs analysis to support the identification of priority populations and areas of greatest unmet need to receive funding</p>	<p>understand impact of NGO delivered services.</p> <p>SSP Co-Leads will provide advice to the ACT Government Budget process</p>
<p><u>Recommendation 6:</u> <u>Prioritise early intervention and prevention</u></p>	<p>The Government recognises that additional capability needs to be built across both Government and the sector in designing and delivering for outcomes and this will be an element of an SSP. Increased focus on monitoring and evaluating outcomes will assist Government to better understand the impact of its investment, and this is also an important component of the SSP.</p>	<p>SSP will commission expert advice to improve data collection, analysis and reporting, and sharing to better understand impact of NGO delivered services.</p>

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	Undertake further work, building on the current Chief Minister, Treasury and Economic Development Directorate (CMTEDD) Data Ecosystem project, to understand the specific issues involved in extending the Data Ecosystem and optimise sharing of data between funded sector partners and Government.	
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