



Review of Industrial Relations
Arrangements in the ACT
Community Sector – Key
Deliverable 4

Improvement Options for the ACT
Community Sector

June 2010



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Executive Summary

The Review of the Industrial Arrangements in the ACT community sector has occurred at a point of significant change to the sector generally. While a key catalyst for the Review was initially to gain a clear comparative picture of the current position of the terms and conditions of employment for ACT community sector organisations contracted to the ACT Government to provide services under Service Funding Agreements, a range of broader industrial processes have also commenced which needed to be taken into account by the Review.

These were:

- The May 2009 'Queensland Decision' which saw community sector workers in Queensland successfully securing significant pay increases through industrial proceedings, and alignment of the pay relativities with the Queensland public sector;
- The national Award Modernisation process, which saw all State and Territory Community Sector Awards replaced by a single Modern Award in January 2010; and
- The commencement of a national Pay Equity case by the Australian Services Union for all community sector workers which, if successful, will see significant pay increases for all community sector workers nationally, in line with those provided to workers in Queensland in 2009.

The Queensland and national Award Modernisation process is complete and the national Pay Equity process is expected to not be completed until early 2011. The focus for the identification of improvement opportunities flowing from the Review has focussed on broader sector efficiency, effectiveness, sustainability and consistency of the sector.

The Review has identified five key improvement options:

- Strategic Planning;
- Roles and Responsibilities;
- Shared Services;
- Costing of Services; and
- Workforce Development.

Much work has previously been done at the ACT and the national levels on some of these issues – specifically the Shared Services and Costing of Services. However, despite quite a body of work being undertaken, the processes of prioritisation and implementation of potential improvements in these areas has been limited.

In order to improve the viability and sustainability of the ACT community sector in relation to those organisations involved in the provision of services through



Government Service Funding Agreements, decisions should be made in relation to:

- the priority assigned to each of the improvement options contained in this report;
- a collaborative commitment in terms of outcomes, resourcing and timeframes agreed; and
- a tightly managed implementation program commenced to deliver against the agreed priorities.

Background and Approach

This Deliverable has the following focus within the context of the overall review process.

Key Deliverable 4

Analysis and Modelling

The requirement of this key deliverable is described as:

- a) identify potential efficiencies and opportunities to improve the effectiveness, consistency and sustainability of service delivery in the ACT community sector, given the current economic environment;
- b) develop policy options to improve the efficiency, effectiveness, consistency and sustainability of service delivery in the ACT community sector; and
- c) identify strategic measures necessary to attract, retain and build a sustainable ACT community sector workforce.

The process of identification of potential efficiencies and opportunities to improve the effectiveness, consistency and sustainability of service delivery in the ACT community sector, taking into account the current economic environment has involved the following steps:

- design of a detailed survey instrument to obtain a range of data in relation to the way in which the organisations currently providing services to the ACT Government through Service Funding Agreements (SFA's) operate. This survey was developed in consultation with community sector organisations and involved two focus groups to test the survey tools and to enable feedback and suggestions from the sector to be incorporated where possible into the final product:
 - The final response rate to the survey was 56% (78 surveys completed) and the sample confidence was very good for most questions (+/-7.5%);
- individual discussions with a number of organisations in relation to the funding arrangements within the sector, how these currently operate and where there might be opportunities for improvement;
- development of a number of potential high level policy headlines. The development of these headlines involved:
 - development of draft options by HBA Consulting for consideration, refinement and endorsement by the Review Oversight Group;

- notification and distribution of the approved draft policy headlines to ACT community sector Chief Executive Officers who deliver services to the ACT Government via SFA's;
- held 2 consultative forums with ACT community sector Chief Executives to discuss the draft policy headlines and summary key finding from the survey of ACT community sector organisations; and
 - More than 50 representatives in total attended the two forums
- consideration of the subsequent feedback provided in relation to the draft policy headlines from ACT community sector CEO's post the consultative forums.
- Research and review of previous relevant ACT community sector reviews and Commonwealth not for profit sector reviews relating to the efficiency, effectiveness and sustainability of the sector. The key reference points identified and considered in the context of the development of the draft headlines policy options included:
 - *Towards a sustainable community services sector in the ACT : report of the Community Sector Taskforce / Community Sector Taskforce*
 - *Finding Solutions – Towards the long term viability of the ACT community sector – A report on the ACTCOSS Community Sector Viability Project*
 - *Draft – ACT Government Pricing Principles' (for Service Funding of Community Sector Organisations)*
 - *The Contribution of the Not for Profit Sector – Productivity Commission Report*
 - *The Social Compact - for the ACT community sector*
 - *The Community Sector Funding Policy - for the ACT.*
- Review and consideration of the industrial changes driven by:
 - The creation of Fair Work Australia
 - The Award Modernisation processes
 - The commencement of the Pay Equity case in relation to the community sector nationally.
- A detailed 'current state' assessment of the core ACT community sector employment arrangements against the core community sector employment arrangements for all other jurisdictions in Australia.
- A detailed analysis and review of the 'Queensland Decision' in relation to the pay outcomes for the Queensland community sector.

Background considerations informing the development of opportunities for improvement for the ACT community sector.

The findings and progress with implementation of previous reviews of the ACT community sector

Since 2005, the ACT community sector has been reviewed by both the Community Sector Task Force (CSTF) and by the ACT Council of Social Service (ACTCOSS) across a range of dimensions that have also been considered in this review process.

In 2005, the CSTF, made up of representatives from unions, employers in the community sector, peak bodies and ACT Government departments, undertook a review process to provide advice regarding the following areas defined by their Terms of Reference:

- Employment arrangements in place in the ACT community sector, with a focus on organisations that receive ACT Government funding;
- Current industrial relations issues/priorities facing the ACT community sector, including investigating pay parity issues, staff retention and monitoring the viability of the community sector;
- Examples of innovative and best practice approaches to industrial relations being implemented within the ACT community sector;
- Comparative analysis of leave entitlements, including consideration of the feasibility of portable long service leave;
- Options for improving the operations of industrial relations matters across the ACT community sector, including compliance with applicable awards and agreements and exploration of enterprise bargaining options; and
- Strategies to improve the provision of information to the ACT community sector on the impact of the implementation of the *Government Procurement (Principles) (Ethical Suppliers) Amendment Guideline*.

This review identified 6 recommendations. These were (in summary):

1. **Development of a set of core pricing principles** for the community sector. These principles would take into account the full recurrent and non recurrent cost associated with providing a service.
 - a. ACTCOSS withdrew support for this recommendation, requesting that it be amended to stress '*Core Pricing Principles*' as outlined in the *Community Sector Funding Policy* be developed and published immediately.
2. **Pay Parity.** It was recommended that the Government commit adequate resources to immediately commence to analyse the nature and extent of recruitment and retention problems in the ACT community sector and to develop options for maintaining up to date and relevant data on employment arrangements in the ACT funded programs.
3. **Long Service Leave.** It was recommended that the ACT Government legislate to establish a mandatory portable long service leave scheme, provide initial funding for start up costs and operational cost for the first 12 months of operations, introduce a levy of employers to fund the scheme over time and for the Government to develop a business case, consultative process and education regarding the scheme.
4. **Industrial Relations Advice.** It was recommended that two IR guidance documents be finalised and published, with support training, and that options for the provision of industrial relations advice, resources and support to the community sector be explored through consultation with the sector.
5. **Occupational Health and Safety.** It was recommended that a Community Sector Occupational Health and Safety project be established to develop a range of training, support and guidance materials.
6. **The Way Forward.** It was recommended that the report be published and distributed to all stakeholders and funding be provided over a following 12 month period to implement the recommendations.

Subsequent to the completion of the work of the CSTF, the ACT Council of Social Service (ACTCOSS) undertook the '*Community Sector Viability Project*' which was published in September 2008. This report followed on from the development of the publication '*Community Sector Viability: An Issues Paper*' in 2003.

The 2008 report noted advances since the 2003 ACTCOSS Issues Paper had been published, in areas such as the commitment of the ACT Government to indexation of community sector funding by linking funding to general rises in wages and prices, and the Government's commitments to the community sector through two key documents – '*The Social Compact*' and '*Community Sector*

Funding Policy'. It also referenced progress with issues such as the development of pricing principles and consultation in relation to the implementation of a portable long service scheme for the community sector.

However, it also listed a range of key areas where the project had identified issues, options and recommendations for the community sector that were likely to secure long term sustainability for the sector.

The report identified 30 recommendations across three key issues:

1. Shared Services;
2. Funding; and
3. Workforce Development.

In summary, the key elements identified in relation to each of the key issues identified can be summarised as follows:

Shared Services

- Document the outcomes of a shared services bureau pilot;
- Any move towards shared services should be voluntary and appropriately resourced, and a range of shared servicing models piloted and commenced;
- Peak bodies, government agencies and/or IT organisations explore IT options for sharing information and sharing web services and support resources.

Funding

- ACT Government to support and advocate for common indexation arrangements across jurisdictions;
- Reduce administrative burden in line with the action plan for Red Tape Review;
- ACT Government to review the operation and day to day management of the Community Sector Funding Policy – specifically how it operates in practice across the ACT Government;
- Assess the way in which funding issues are overseen to ensure it is appropriate (e.g. by the Joint Community Government Reference Group (JCGRG));
- Improved tendering processes and full cost recovery pricing;
- Development of pricing principles and guidance support material;
- ACT Government to address funding gaps through a variety of methods; and

- Community organisations and peak bodies to look at sustainable alternative methods of operation and funding.

Workforce Development

- Organisations consider joining the ACT Community Sector Multiple Business Agreement as a means of raising the overall conditions in the sector.
- Organisations incorporate full cost recovery and pricing to reflect fair salaries and conditions of staff when negotiating contracts with Government.
- ACT Government to provide a 'one off' payment to organisations to redress the gap between comparable positions in the community and public sectors.
- Community sector and peaks to examine the feasibility of establishing a recruitment agency for the sector.
- ACT Government to undertake a training needs analysis in consultation with the sector.
- Greater access to middle management training for workers in the sector.
- Community sector organisations and peaks to form a collaborative approach to meeting identified training needs.
- ACT Government to develop a strategic community sector workforce planning profile to enhance Skills commission recommendations on shortages.
- Community sector organisations to explore options for a CEO forum.
- ACT and Commonwealth governments to fund a sector wide workforce development program.
- Community sector peaks to consider incorporating practice awards into their annual events of conference programs.

Each of these review projects has identified a number of core themes and actions. Some of these themes and actions have been addressed, however a number of them also remain to be addressed. A table summarising the key themes and actions from the two processes that are yet to be fully progressed, together with some commentary in relation to current relevance to the review undertaken by HBA consulting is at *Attachment A* of this Report. .

Broader national directions for improved efficiency and effectiveness for the ‘not for profit’ sector

During the period of the review, the Productivity Commission released a major research report entitled ‘*Contributions of the Not-for-Profit Sector*’ in February 2010. This report has a number of recommendations which have relevance and bear consideration in relation to improving the efficiency and effectiveness of the ACT community sector. These recommendations relate to not only Government, but also service provision organisations and clients of the service provided.

The report itself is lengthy and contains 14 main recommendations, some of which are broken down into a number of sub-recommendations that support the potential implementation of each of the main recommendations.

There is clear alignment between some of the key recommendations of the Productivity Commission research report and the proposed improvement options identified as part of the Review process. The process of consideration and implementation of the improvement options from the Review should also take into account the related relevant recommendations from the Productivity Commission report, where appropriate.

The key points of alignment between some of the recommendations of the Productivity Commission (PC) and those developed as part of the review process are summarised in the following table:

Productivity Commission Recommendation	Productivity Commission Recommendation	Review of the ACT Community Sector IR arrangements Improvement Option	Comments
Rec. 9.2	State & Territory government support for sector development	Workforce Development	PC report provides specific points of focus in relation to improving governance capability and building skills in risk and evaluation for those providing government funded services.

Productivity Commission Recommendation	Productivity Commission Recommendation	Review of the ACT Community Sector IR arrangements Improvement Option	Comments
Rec 9.3	Government agencies using external agencies for service delivery should establish evaluation programs	Costing of Services	PC report provides further emphasis on the need to ensure that evaluation is undertaken to better understand effectiveness and actual cost of programs.
Rec. 10.2	Ensure sustainability of workforces by basing funding on relevant market wages for equivalent positions.	Costing of Services	PC report provides guidance on the establishment of costing base development in relation to skills and wages.
Rec. 10.3	Australian Government to commission work in relation to workforce planning for the community services sector	Workforce Development	PC report provides emphasis on capability development in relation to workforce planning for the sector.
Rec. 11.3	Government to respect the independence of funded organisations and not impose conditions beyond those essential to ensure that delivery of agreed outcomes	Roles and Responsibilities	PC report emphasises the need to clarify roles and responsibilities and to operate within the agreed arrangements.
Rec. 12.1 & 12.2	Selection of the most appropriate model of engagement with not-for-profit service providers	Roles and Responsibilities	PC report identifies three potential broad models for engagement with service providers.
Rec. 12.3	Value for money assessments should also take into account indirect or wider benefits that providers might be able to generate.	Costing of Services	PC report identifies broader value for money criteria for consideration is assessing service providers.

Productivity Commission Recommendation	Productivity Commission Recommendation	Review of the ACT Community Sector IR arrangements Improvement Option	Comments
Rec. 12.5	Length of service agreements aligned with outcomes sought rather than standard contract periods	Strategic Planning	PC report emphasises the need to consider agreed outcomes and align with appropriate service agreements and contracts periods.
Rec. 12.6	Development of an explicit risk management framework through consultation with service providers	Workforce Development	PC report emphasises the need to understand and agree risks between government and service providers when entering into service agreements.
Rec. 12.7	Government's should review and streamline procurement and compliance requirements to reduce costs to service providers.	Roles and responsibilities	PC report suggests that all governments should urgently review and streamline their procurement processes to streamline compliance roles, responsibilities and costs.
Rec. 14.1	Compacts between Government and the sector must be well documented, supported by practical measures that give concrete expression to the relationship.	Roles and responsibilities	PC report encourages a review of compacts to ensure that they are complete, relevant, and practical and concrete in terms of guidance for those engaged in providing or contract managing service delivery.

Findings from the survey of ACT community sector organisations that currently provide services to the ACT Government through service funding agreements.

The survey of ACT community sector organisations currently delivering services through Government Service Funding Agreements has provided a range of important data in relation to the 'current state' of this component of the community sector in the ACT. The following is a summary of some of the key findings of the survey. Key components of this data have been used in the process of identifying and formulating the improvement options for the community sector

Staffing and Budgeting

- The median value of Service Funding Agreements between the ACT Government and community organisations was \$125,168.
- The median percentage of funding received attributed to salary and related expenses was 75%.
- Almost half of workers (43%) under these Service Funding Agreements are employed part-time, while 33% of workers are employed full-time.

Salary and Conditions

- Three quarters (75%) of respondents indicated that their organisations used the Social & Community Services Award 2000 to determine base rates of pay.
- Almost two-thirds (63%) reported that their organisations operated both during and outside standard operating hours.
- The majority of respondents (78%) indicated that they do not provide their employees with Rostered Days Off (RDO's).
- The majority of respondents (86%) indicated that they do not provide their employees with time off in lieu (TOIL).
- Over two-thirds (69%) of organisations indicated that 38 hours per week is the maximum number of hours that full-time workers were expected to work, while part-time workers are expected work no more than 30 hours per week.

Leave Conditions

- The median number of week's annual leave for full-time, non-shift workers is 4 weeks, while for full-time, shift workers it is 5 weeks.
- Almost all respondents (93%) indicated that they allow their full-time staff an amount of sick leave.
- Of those organisations who do allow sick leave, 44% allow for up to 10 days, and another 44% allow for up to 15 days per annum.

Flexible Remuneration Arrangements

- Over three-quarters of respondents indicated that workers at their organisations have access to salary packaging.
- More than two-thirds of organisations (68%) provide their staff with work-related expense allowances or reimbursements such as personal motor vehicle or telephone use.

Learning and Development Arrangements

- Almost all organisations (94%) provide assistance to their staff to gain additional training/qualifications.
- Of the organisations that do provide assistance, 81% provide staff with assistance for in-service training, and 72% provide staff with paid study leave.

The emerging industrial environment for the community sector

During the period of the Review, the industrial arrangements generally, and those applying to the community sector specifically, underwent significant change.

The key issues impacting on the community sector that were reviewed and analysed included:

- The potential impacts of the *'Queensland Decision'* on the current and future employment arrangements for workers in the ACT community sector.
- The implementation of Award Modernisation processes for many sectors of the workforce, including the implementation of the *'Social, Community, Home Care and Disability Services Industry Award 2010'* from January of this year.
- The implementation of a new Multi-Enterprise Agreement (MEA) within the ACT community sector. This Agreement now provides coverage to more than 40 ACT community sector organisations.
- The commencement of a national pay equity case for community sector workers, being progressed by the Australian Services Union.

The details and analysis of the *'Queensland Decision'*, the Modern Award for the community sector, a comparative assessment of the MEA and the Modern Award and a comparative assessment between the Modern Award pay rates and the pay rates being proposed in the national Pay Equity case current being heard by Fair Work Australia are all contained in the report entitled *'Key Deliverable 3 – Assessment of current industrial arrangements across the ACT community sector'* which is part of the suite of deliverables for this Review.

The pay rates contained in the Pay Equity case currently underway are aligned with those contained in the *'Queensland Decision'* and as a result are currently being paid to a range of workers in the Queensland community sector. While it is anticipated that the case will not be concluded and a decision made until late 2010 or perhaps early 2011, the potential impact of the case, if supported by Fair Work Australia in its current form, will have significant budgetary impacts for all jurisdictions across the short to medium term. Pay increases across the board for workers covered by the community sector Award would be in the range of 20% to almost 50% above those currently provided for under the Award.

Potential implications for the ACT Government and ACT community sector

Typically, a comparative review of industrial arrangements would, almost certainly, make some assessment of the current and future pay relativities and suggest options for addressing these.

However, given the current status of the Pay Equity case before Fair Work Australia, and the uncertainty that remains regarding the final outcome and decision of the process, HBA Consulting is not in a position to provide a definitive assessment and recommendation in relation to pay outcomes for the sector into the future.

However, we do make the following observations and suggestions in relation to the potential pay relativity matters.

1. The apparent precedent set by the *'Queensland Decision'* is a significant one that is likely to strongly influence the final outcome of the Pay Equity case currently before Fair Work Australia.
2. The budgetary impact of the *'Queensland Decision'* for the Queensland Government and the community sector was in excess of an additional \$400 million of funding for the provision of existing services.
3. The pay increases in Queensland were implemented using a phased and targeted approach, which meant that the total pay increase were scheduled to be paid over a number of years, and the initial pay increases were paid to 'front line' service delivery functions, and not paid to other sector functions (e.g. advocacy services). A phased approach is also being sought by the ASU in its Pay Equity case.
4. The ACT Government would be prudent to begin detailed analysis of the content of the Pay Equity case as soon as possible and to make financial assessments of the potential budget impacts of the proposed quantum and implementation timings in the ASU submission.
5. Based on this assessment, the ACT Government could consider entering into negotiations with the Commonwealth and its ACT community sector service providers to discuss and refine the forecasts and establish a clear set of potential scenarios for the funding of the services provided by the sector into the future, pending the final decision on the application by Fair Work Australia.

Policy Options for Improvement

The five policy improvement options detailed in this report may, over time, transition into the proposed Outcomes Based Service Funding Agreement – Purchasing Framework. The Framework will be initially implemented for the ACT Department of Disability, Housing and Community Services. The Framework includes the development of a “population approach” and will measure the achievement of specific population results over a ten year period, in relation to improving social and economic outcomes for vulnerable Canberra’s. It is expected that the Purchasing Framework will deliver the following business benefits:

- a) a pre-qualification framework;
- b) a maximum ten year contract consisting of a fixed term with option periods and agreed performance monitoring milestones.
- c) standard terms and conditions;
- d) an outcomes based quality assurance framework;
- e) a common reporting framework; and
- f) incentives linked to performance to deliver outcomes.

As covered in the previous section of this report, *‘The emerging industrial environment for the community sector’*, there are a range of pay related considerations which will eventually need to be addressed by the ACT and all other jurisdictions in terms of the budgetary impact on the cost of the salary component of service delivery within the sector. The final quantum, timing for commencement and approach to implementing any changes will be determined by Fair Work Australia as an outcome of the Pay Equity case currently underway.

As this national Pay Equity process is now underway and considerable debate and consideration have yet to occur, and a final decision is potentially more than six months away, the primary focus in relation to the development of policy options has therefore centred on broader sustainability issues for the ACT community sector. These issues have been identified and prioritised for inclusion based on:

- our independent research and analysis of the community sector
- design and conduct of a detailed survey process that has received a good response rate from across the sector;
- discussions with ACT community organisations through a number of formal and informal consultative processes; and
- guidance and direction from the Review Oversight Group who have been providing comments and feedback on the outputs from the Review project as it has progressed.

Five Improvement Options have been identified for inclusion in this Report. They are designed to provide clear directions across a small number of key areas which, if successfully addressed, have the potential to improve the efficiency, effectiveness, consistency and sustainability of the ACT community sector.

Some of the recommendations that have been included are similar to other recommendations from earlier reviews and projects conducted by organisations such as ACTCOSS and groups such as the Community Sector Taskforce.

In particular, the options in relation to Shared Servicing and Costing of Services have been identified in previous work undertaken by these organisations and groups. They have been included as improvement options in this Report because they remain important to the objectives of this Review.

In relation to next steps, the options identified need to be addressed in terms of not only policy and the development of the requisite supporting and explanatory documentation and training, but most importantly they need to be actively progressed and holistically finalised and then cooperatively and comprehensively implemented.

They should not be at risk of being considered and either not transitioned from 'draft' status to final product for implementation or piloted in limited ways within the sector. They need to be agreed to and prioritised as strategic sector initiatives, resourced appropriately (including resourcing from both the Government and the community sector), timeframes and deliverable targets established and outcomes managed through a tight project management process.

1. Improvement Option – Strategic Planning

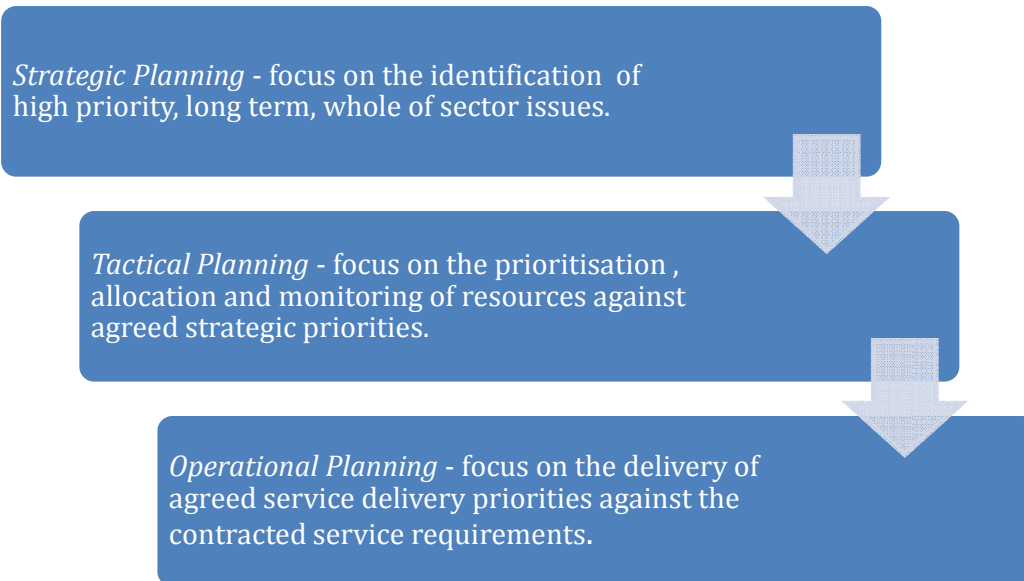
Rationale for Inclusion

The current planning framework for Service Funding Agreement contracts has been summarised as follows:



In terms of assessing the efficiency and effectiveness of the sector, HBA Consulting, as a starting point, has reviewed this planning framework against a conventional 3 level planning hierarchy with the following hierarchical and interdependent components:

- Strategic
- Tactical
- Operational



The review of the existing planning arrangements against this framework has identified some key areas for improvement.

- The current strategic planning framework relies on the Social Compact and the Community Sector Funding Policy as the key strategic level guidance documents for planning for the services provided through Service Funding Agreements. These documents are primarily high level expressions of intent. While in this context they are sound documents, the linkage between translating intent into action and implementation, as well as where the accountability, timing and responsibility for delivering against these obligations remains less clear, based on the analysis undertaken as part of the review processes and discussions with organisations.
- In addition to these limitations for planning at the strategic level, the current strategic planning linkages between relevant Government

functions and the community sector strategic planning framework in the form of a regular, structured process is not clear from our analysis.

- For example, in relation to framing the future requirements for community services in a geographic area of the ACT, using the current framework, it is not apparent how relevant functions managed by the Government in areas such as demographic forecasting and transport and infrastructure planning are able to be systemically factored into the strategic planning processes around future service priorities for the community sector. Properly structured and used, the inputs from these related forecasting processes have the potential to significantly assist the community sector to understand and address future social and structural changes that will impact on service delivery requirements and, in turn provide valuable input into these broader Government planning processes.
- Similarly, it is not clear how the national reform and improvement agendas for the community sector are currently being routinely linked to the strategic planning and decision making processes for the ACT community sector. It appears that, rather than being holistically addressed at the sector level, much of the national reform agenda work is being addressed at the sub-sector planning level.
- In terms of the tactical planning level, the current planning framework does not include a formal planning and decision making step between the strategic level (Social Compact and Community Sector Funding Policy and the operational sub-sector planning level (Service Funding Agreements and Sub-Sector Plans).

Recommendation:

It is recommended that the ACT Government consider the following improvement options:

1. Use the existing community sector planning and reporting data to inform the development of tactical planning for the sector, including the development of associated processes to enable a more efficient and effective linkage between the strategic and operational planning levels. This tactical planning should be developed and shared with the community sector on a regular basis.



2. Develop a planning mechanism involving relevant key Government agencies and community organisations, to enable better integration of service planning across the ACT and to assist with the forecasting of future services demand within the ACT community sector.

2. Improvement Option – Roles and Responsibilities

Rationale for Inclusion

During the process of design and consultation of the major survey of ACT community sector organisations, there was a regular comment provided by community sector organisations a process and the provision of some of the information being sought by the Government was actually consistent with Government's role and responsibilities.

Specifically, there were questions raised in relation to the obligations and expectations of organisations providing services through Service Funding Agreements (SFA's) with the Government and the need to provide information to Government outside of the reporting requirements specified under the SFA contract.

The key themes emerging from these discussions with organisations tended to focus primarily on:

- The extent to which the funder (i.e. Government) could request information from services (i.e. community sector organisations) about how they operated their businesses and the provision of contracted services outside of that required under the contract based reporting requirements;
- The extent to which this information would be used by Government to review budget allocations and funding arrangements (i.e. adjustments based on responses to questions regarding the resource split between administration and service delivery); and
- Why the Government had an interest in how services were delivered when the purchasing arrangement and the SFA operational reporting relied primarily on output measures to determine performance and contractual compliance.

Also, an analysis of the high level guidance documents that provide the key strategic planning and intent for the ACT community sector tend to identify and encourage collaborative or cooperative action on many of the key deliverables and priorities, however when these intentions are to be translated into tangible action, it is not clear in all circumstances to who drives a process, who supports/inputs to it and the timeframes and outcomes

that area being targeted. Such a situation can result in delays in completion, a disconnect between delivery of outcomes and stakeholder expectations and relationship tensions between Government and the community sector organisations involved in the partnership in terms of accountability and responsibility for completing components.

The recent Productivity Commission Report entitled '*Contribution of the Not For Profit Sector*'¹ has affirmed many of these observations and issues as having broader application across the not for profit sector, particularly in relation to how it interacts with Government through the provision of contracted services.

The Report has highlighted a range of issues in relation to the delivery of Government funded services to the community through not for profit organisations that should be considered by the ACT Government in the context of improving the efficiency and effectiveness of the way in which the roles and responsibilities for provision of services through SFA's are defined and managed into the future.

Two key issues in this regard coming from the Productivity Commission Report are:

1. The effect on outcomes from contracted services that are due to the nature of the way in which the service contracting is structured and managed; and
2. The future directions in terms of the intended relationship between government, business and community in relation to the delivery of the contracted services.

In relation to point 1 (above), the Productivity Commission Report highlights that there may be a range of unintended outcomes from the approach that Government has adopted to the purchasing of services from the not for profit sector. These include:

- Short term contracting timeframes;
- Poor risk management processes;
- Onerous contracting and reporting requirements; and
- The degree to which contracts are used to micro manage providers.

¹ *Contribution of the Not For Profit Sector* Productivity Commission Report February 2010

These issues are ones which may warrant review when clarifying roles and responsibilities into the future of how the ACT Government and community sector service providers work together under the current contractual arrangements and how they see this relationship evolves into the future.

In relation to point 2 (above), the Productivity Commission Report suggests that Government's may need to fundamentally review and reconsider the operational model, and resultant roles and responsibilities that define the relationship between itself and the service providers.

In considering the most appropriate models for engagement into the future, the Report suggests that the selection process needs to be based on four assessment points:

- The nature of the service, including ability to identify and control quality standards;
- The capabilities of the clients (or their representatives) to make an informed choice;
- The availability of service providers and scope for competition and choice; and
- The risk associated with the service.²

It identifies three broad models for engagement:

Client Directed	Purchasing of Service Contracting	Joint Ventures
<ul style="list-style-type: none"> • Demand for greater choice and tailored service bundles • Clients have considerable control through market mechanisms including choice of provider • Relatively more emphasis on market forces 	<ul style="list-style-type: none"> • Widespread demand for relatively standardised services • Government purchasing a well defined service • Contestable markets and scope for negotiated contracts • Relatively more emphasis on contractual governance 	<ul style="list-style-type: none"> • Demand for experimental solutions to intractable problems • Ownership and control more equally shared across a range of stakeholders • Relatively more emphasis on relational governance

² *Contribution of the Not For Profit Sector* Productivity Commission Report February 2010 p. xxxviii

Each of these models will differently impact upon the roles and responsibilities of Government and service providers, and so any adjustment or re-affirmation of the preferred relationship model between Government and the service providers will require careful assessment, consultation and confirmation in terms of roles and responsibilities if the future relationship is to be efficiently and effectively sustained and improved over time.

In addition to the issues raised by the Productivity Commission Report, there are also likely to be benefits to Government and the community organisations in focussing on the developing greater clarity in relation to roles and responsibilities under the current planning and operational frameworks.

As discussed earlier in this report, in relation to possible improvements to the Planning Framework within which the SFA processes operate, there are potential benefits in strengthening the tactical level planning guidance material, to improve the linkages between strategic outcomes and operational activity. This process should also include work on identifying and agreeing the roles and responsibilities associated with translating the strategic level outcomes into operational activity.

This may be achieved through the development of a bridging document to the Social Compact ,(the overarching policy framework for the Government and community sector), which would be a concise, simpler version of the Compact itself that provides a clear linkage between high level strategy and operational planning and is more user friendly for those actually delivering the services.

Recommendation:

It is recommended that the ACT Government consider the following improvement option:

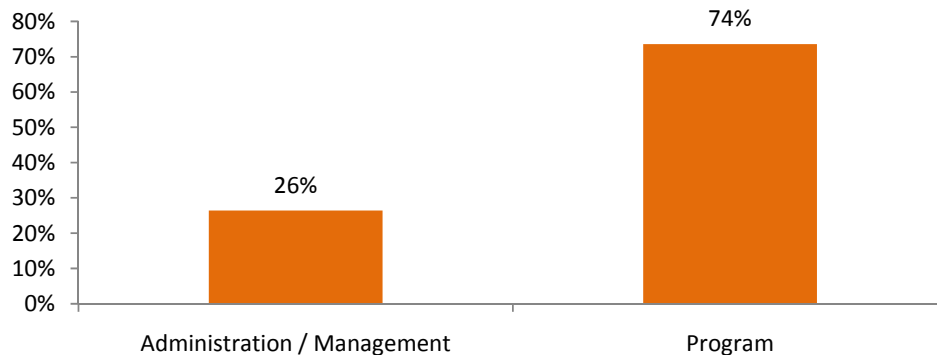
1. ACT Government to develop a policy document that outlines the roles and responsibilities between ACT Government and the funded services. The document would provide a link between the Social Compact and the Service Funding Agreement.

3. Improvement Option – Shared Services

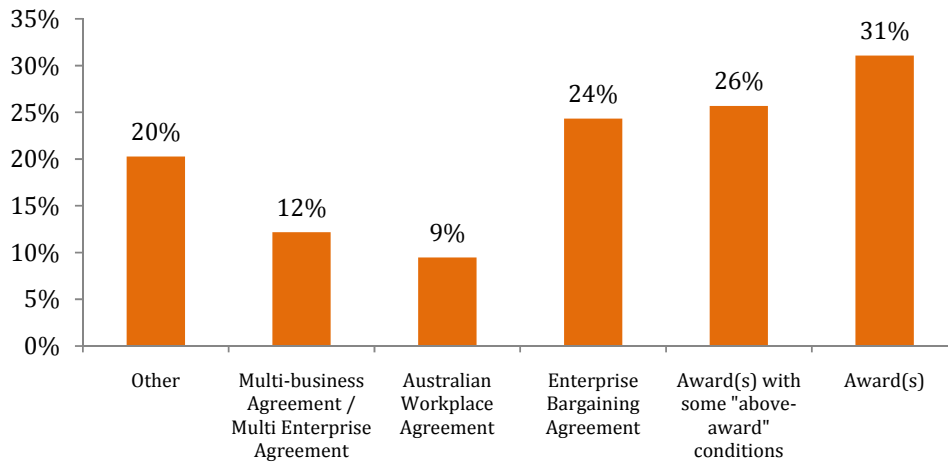
Rationale for Inclusion

Based on the survey data obtained as part of this Review process, the current administrative operational realities for organisations providing services to the ACT Government through Service Funding Agreements (SFA's) are that:

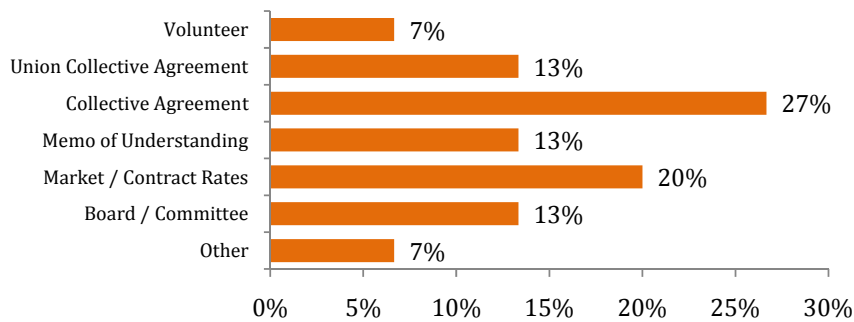
- a. All organisations provide their own administrative support to their business operations. The average split of resource attribution between operational and administrative functions was 74% to operations and 26% to administration.



- b. The majority of organisations within the sector have employment arrangements that are either directly, or in large part, structured against the applicable Award arrangements (primarily the ACT SACS Award). The following chart reinforces this alignment against the Award base. The Review process has confirmed that, within the ACT community sector, Enterprise Bargaining Agreements, the Multi-Enterprise Agreements and modified above base Award employment arrangements all have clear similarities with the Awards applicable to the sector.

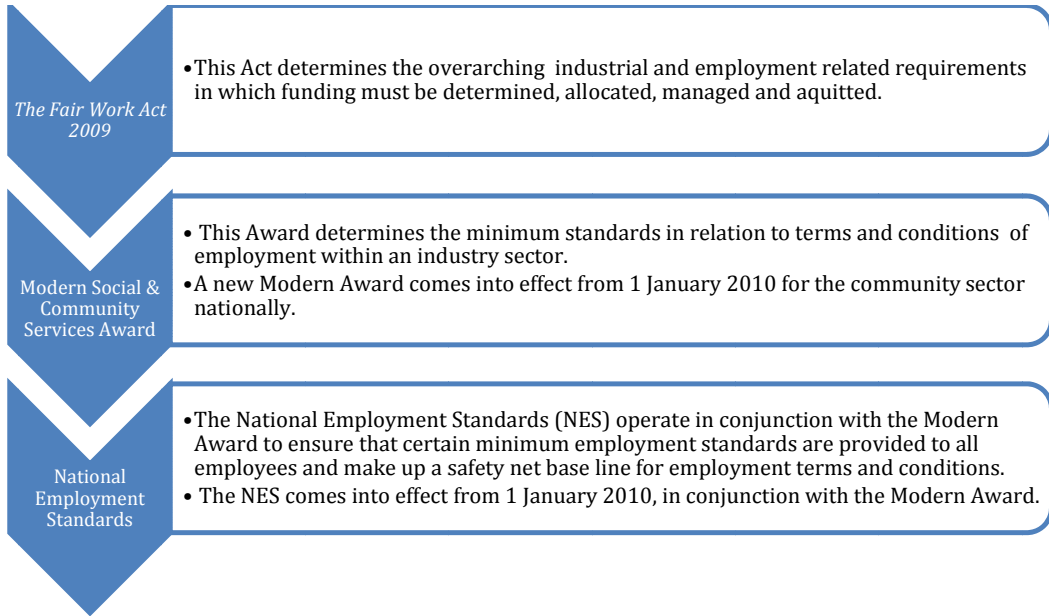


The additional survey data shown in the following chart, further supports the alignment with relevant Awards, given that, of the “Other” employment arrangements are primarily comprised of employment terms and conditions drawn from the relevant Awards for the ACT community sector – in this category these similarities are most prevalent in Union Collective Agreements, Collective Agreements and Memorandums of Understanding.

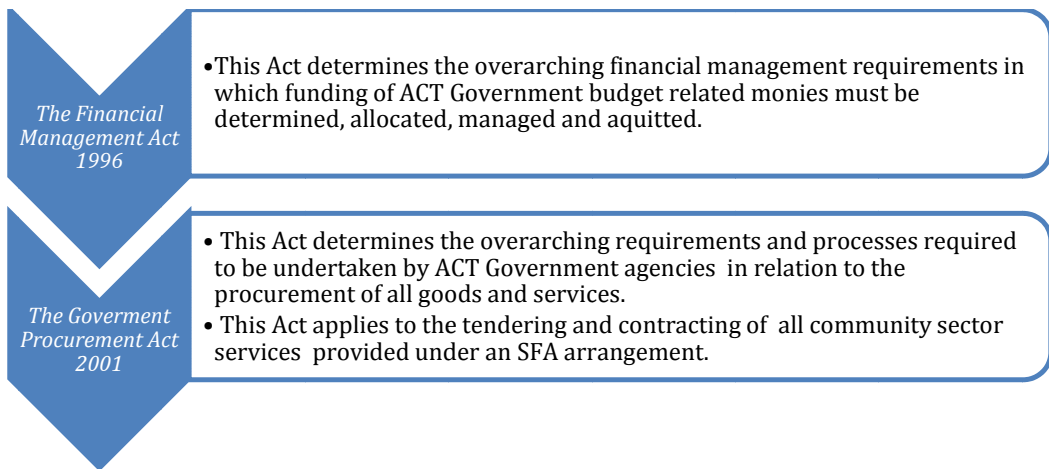


Similar to the core employment arrangements having some clear similarities, the financial reporting and management requirements for all services provided by organisations to the ACT Government under SFA’s also have strong similarities – driven by a mix of Government reporting requirements against SFA operations, as well as broader accounting and taxation requirements and standards.

These similarities are shown simply in the following diagrams. Firstly, the primary industrial reference points are as follows:



The financial management requirements are primarily determined by the following reference points:



Within the ACT community sector, there are a number of larger organisations who currently maintain HR, payroll and finance systems that have the required scale, systems development and staffing arrangements to potentially provide Finance and HR services to smaller organisations which can potentially:

- improve service delivery to workers;
- minimise business continuity risk in relation to the provision of these services;

- increase the consistency of application of terms and conditions of employment; and
- provide these administrative services at a reasonable cost to the smaller organisations, which could potentially result in the 'freeing up' of a component of the current average 26% expenditure of SFA's on administrative costs, enabling these cost savings to be directed back to the service delivery component of their operations.

Given that the fundamentals of employment and finance operations within the sector have some clear similarities and requirements and reference points that are consistent in content and context, the establishment of a shared service capability for these two functions should be achievable within the ACT community sector.

There are also a range of other potential opportunities in relation to shared servicing arrangements. These could include areas such as:

- Purchasing and procurement. For example, the community sector could undertake a single purchasing process for key consumable products, which is likely to achieve unit cost savings that could be reinvested into service delivery;
- IT services and support. There are currently a range of service arrangements in place, and rationalisation and consolidation of these into a smaller number of larger volume arrangements is likely to result in administrative and operational savings that could be reinvested into service provision, as well as potential improvements to service and support provided by the service providers to workers in the sector.

Both the ACT community sector itself and the community sector in other Australian jurisdictions has previously explored the feasibility and application of a shared servicing model previously. Within the ACT, both *Communities at Work* and the *National Disability Service* have undertaken pilot work to try to ascertain the opportunities and appetite for shared servicing within the sector. The primary focus for these pilots was Finance and Information Technology services. Copies of the full report from *Communities at Work* can be found at www.commsatwork.org/Portals/0/About%20Us/Our%20Library/FINAL_Shared%20Services%20Report_9%20Nov%2009.

Outside of the ACT, recent work in relation to the potential benefits, risks and challenges for the sector in considering, designing and implementing a shared service arrangement within the community sector have been researched and considered. In 2008, the NSW Council of Social Service (NCOSS) produced a background paper for the NCOSS Shared Service seminar entitled “Shared Services in the NGO Sector”

www.ncoss.org.au/projects/msu/downloads/articles/BackgroundPaper-Seminar. This paper drew on a range of earlier work undertaken within the sector on Shared Servicing, including the 2008 work undertaken by ACTCOSS as part of its *Community Sector Viability Project*. This paper succinctly summarises the potential benefits, risks, opportunities and implementation challenges for the sector if it was to further consider and implement shared services arrangements.

This work provides a contemporary basis for the ACT Government and the ACT community sector to consider the next steps with shared servicing in the sector. Based on the discussions with the ACT Government and a range of ACT community sector organisations as part of the Review process, in relation to the potential benefits and risks associated with shared servicing within the ACT, the context, challenges, models and risks discussed in the NCOSS paper are likely to have strong resonance and relevance for the ACT.

In particular, consultative discussions during the Review, especially the Chief Executive Officer Forums held to discuss the potential improvement options that have been used to frame the improvement options coming out of this Review, identified that the sector had concerns in relation to the shared services approach that focused on issues such as:

- the costs and time demands associated with any transition to, and ongoing operations of, a shared service arrangement;
- the potential loss of control over service delivery and privacy and confidentiality matters;
- the way in which any resource savings coming from the shared servicing arrangements would be treated in the context of the SFA with the Government; and
- the effect on jobs for staff currently providing services that would be transferred to a shared service provider.

It is suggested that a model that is based around a small number of existing larger organisations providing shared service support to a number of smaller organisations, perhaps on a geographical basis, may be a useful model for progressing future discussions around implementation.

This approach is based on the realities of the current demography of the sector, which sees a number of larger organisations located in close proximity to smaller organisations. Under this approach the clustering might be structured as follows:

- Tuggeranong
- Woden
- North Canberra
- Gungahlin

Any decisions in relation to the best approach for the future would require careful consideration and consultation between the ACT Government and the ACT community sector.

Recommendations

It is recommended that the ACT Government consider the following improvement option:

1. ACT Government to develop options for shared service models for the ACT community sector. The options would identify opportunities and incentives to implement shared services on an 'opt in' basis for community sector organisations. This implementation assessment process should examine implementation issues such as:
 - a. Risk assessment;
 - b. Cost-Benefit analysis;
 - c. Economies of scale thresholds;
 - d. Shared services model options that best suit the future ACT community sector needs; and
 - e. Support from community sector organisations to participate in a shared services model.

4. Improvement Option – Costing of Services

Rationale for Inclusion

The costing of services provided to Government under the current SFA arrangements has been repeatedly raised by community sector organisations as being both problematic and needing clarity and consistency of application as part of the tendering and contracting processes for Government services.

This issue has been raised and explored in some detail previously by the Government and the community sector.

The 2006 *Community Sector Taskforce Report* made a clear recommendation that a set of core pricing principles for the community sector be progressed as a matter of urgency. 'These principles would take into account the full recurrent and non recurrent costs associated with providing a service.'³

The 2008 ACTCOSS report *Finding Solutions – Towards the long term viability of the ACT Community Sector* notes progress with the development of Pricing Principles flowing from the Community Sector Task force report. Specifically, it notes that, 'the Community Sector Taskforce report recommended that the development of core pricing principles (strategy 3 of the policy) be actioned as a priority. The Joint Community Government Reference Group (JCGRG) released a discussion paper on pricing principles in January 2008 and workshops were held in March 2008.'⁴

Pricing Principles were referred to in this review for consideration. In terms of next steps, it has been anticipated and planned that an implementation guide be developed to assist ACT community sector organisations to understand and use these pricing principles to cost services.

The establishment and implementation of these principles has the potential to address many of the concerns for community sector organisations in relation to what needs to be included in developing proposals for future Service Funding Agreements.

The establishment of these Pricing Principles will not, on their own, address a range of other concerns within the community sector that were identified during the course of this Review. Organisations are likely to use and any new cost Model to, understandably, test the structure of the funding bases for existing SFA funded programs. This may result in the identification of current funding arrangements that do not take into full account the complete range of issues and any new Cost Model.

³ Community Sector Taskforce Report - Executive Summary p. 7.

⁴ ACTCOSS Report *Finding Solutions – towards the long term viability of the ACT Community Sector* p. 16.

Also, it is important to state in the context of funding of services, that the ACT Government has, for a number of years, operated an indexation arrangement that annually increases the base funding for SFA services, using a simple indexation formula.

The current indexation arrangements, while taking into account a combination of wage cost increases and general cost of living increases, also assume that the funding base upon which the indexation is applied is properly constructed and takes into account a holistic assessment of all costs associated with the conduct of each SFA.

Given that the annual budget funding and the forward budget estimates across the financial out years, rely, in an aggregated sense, on the current funding arrangements base and the application of the indexation model to the forward estimates forecasts, any shortcoming in terms of the completeness and/or adequacy of the existing budget base can provide recurrent funding problems for contracted service delivery.

The Government provides community organisations funding to meet increasing wage-related and administrative costs. Annual funding increases are calculated using the following formula which is more generous than a simple Consumer Price Index Approach. The formula is as follows:

- Wage Price Index (*0.80) + Consumer Price Index (*0.20)

This approach was advocated by ACTCOSS based on the Western Australian model. The reform of indexation was implemented to better recognise wage costs.

The 2009-2010 indexation rate in the ACT for community services is 3.15%.

Future rates according to the above model are detailed below and are drawn from the current ACT Government Budget papers:

	2009-10	2010-11	2011-12	2012-13	2013-14
Wage Price Index	3.5	3.5	4.0	4.0	4.0
Consumer Price Index	1.75	2.5	2.5	2.5	2.5
Community sector rate	3.15	3.3	3.7	3.7	3.7

There is a need to undertake detailed analysis and consultation in relation to the components of a costing model that will ensure that future funding proposals for SFA services are built upon a clear and consistent set of cost items. These items should clearly identify all components that should be

considered in developing a full cost perspective for the proposed services, and then clearly categorise these components into either service delivery or administrative cost elements.

It may be advisable to undertake this work in the context of the Council of Australian Government's (COAG) project to implement a Standard Chart of Accounts (SCOA) for the not for profit sector, which is now due for implementation in mid 2011.

Recommendations

It is recommended that the ACT Government consider the following improvement option:

1. Use the Standard Chart of Accounts for the Not For Profit sector to develop costing models that clearly identify the components that need to be included in service delivery and administration activity reporting.

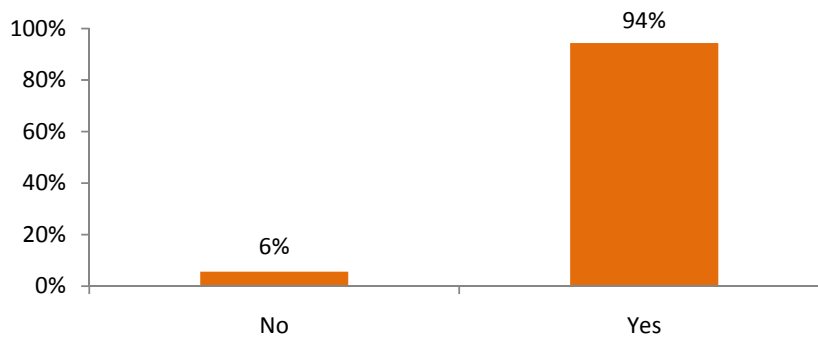
5. Improvement Option – Workforce Development

Rationale for inclusion

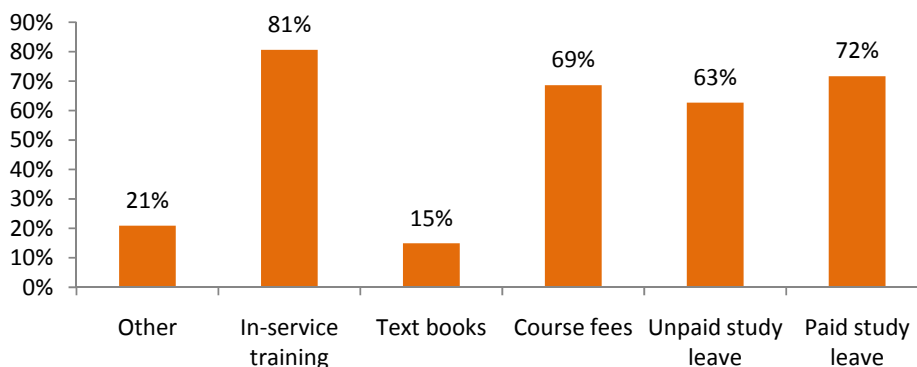
The survey component of the Review process identified a number of potential opportunities for improvement in relation to workforce development. Likewise, workforce capability development has previously been identified as an area requiring attention and investment in the ACTCOSS *Community Sector Viability Project* and the Community Sector Task Force Report.

The survey data identified a number of potential improvement opportunities based on the following data:

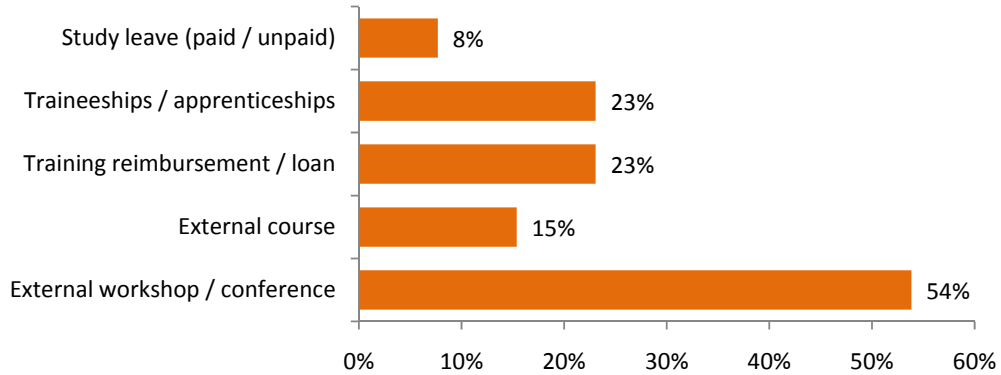
Firstly the vast majority of organisations responding to the survey did provide assistance to workers to gain additional qualification and/or training.



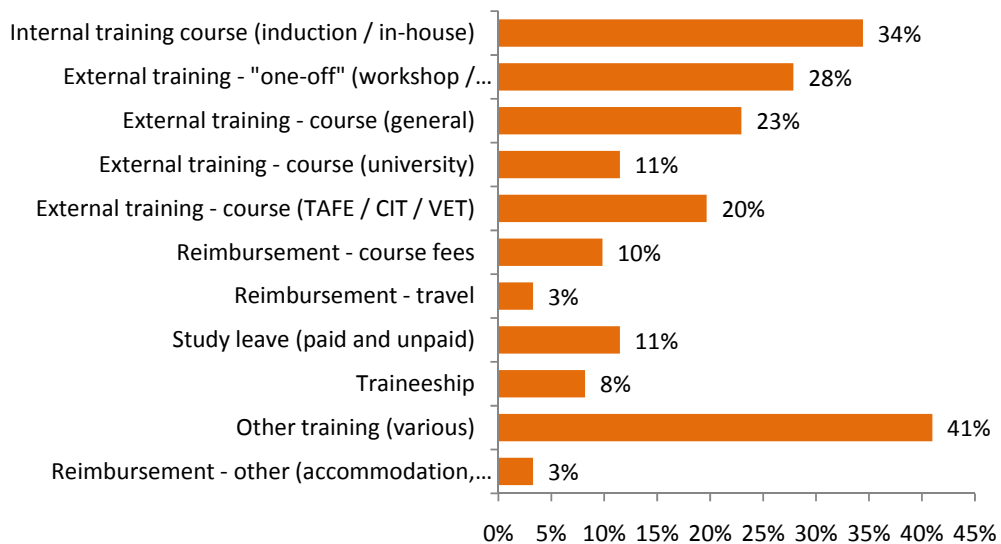
Secondly, in terms of the type of support provided, the survey found that the current base of support was quite broad.



Further analysis of the 'Other' component from the previous chart showed the following:



The 3 most commonly supported forms of training were:



Finally, in terms of base data regarding expenditure on training and development the following data was provided:

n	Mean	Median	Std. Deviation
49	\$ 1,060.57	\$ 600.00	\$ 1,331.17

When these sets of data are collectively taken into account, it provides some clear potential opportunities to improve efficiency, effectiveness, consistency and sustainability of the community sector.

The key improvement opportunities coming from the analysis of this data are:

- More than 4 out of 5 organisations provide in-service training to staff. A component of this will have generic community sector application, while other components will be organisation specific. Where it is possible to identify generic sector in-service training it may be possible to coordinate the development of courseware and/or present this type of course material. This could involve a collaborative and cooperative arrangement, resulting in minimised duplication of effort for design and delivery and has the potential to improve consistency of content and material across the sector.
- External courses, including one off workshops, conferences, general workshops or university and TAFE courses are currently used by many organisations in the sector as sources of training. It should be possible to identify, coordinate purchasing, share venue and travel costs and as a result achieve some collective savings for organisations, by comparison with the current approach to the sourcing and provision of this type of training and development. It should also be possible to purchase sufficient places across the sector to ensure that programs can be tailored to suit the specific requirements and issues for the ACT community sector.
- Finally, the expenditure by organisations surveyed on training and development varied considerably. Using the mean as the most reliable measure given the large standard deviation in relation to the expenditure data, the per head expenditure in dollars within the sector is \$600.00 per staff member. The standard deviation, however, shows that the range of actual expenditure varies quite considerably across organisations.

It is anticipated that the benefits of an improved sector wide awareness and coordination of the provision and/or sourcing of training and development will include:

- Improved access to training and development for staff across the sector;
- Reduced unit costs for training and development, which have the potential to open up options for organisations in relation to the provision of more or broader training and development opportunities than currently available;

- Increased consistency of approach across the sector in terms of core organisational capability (e.g. governance, reporting, policy development etc.);

Recommendations

It is recommended that ACT Government:

1. Seek to support the community sector to identify and map the current sector capacity building training activity, sourcing and cost data;
2. Support the sector to map, categorise and consolidate the findings of the current state training data, across a range of training and development categories to seek to identify opportunities for improved cross sector purchasing and coordination of training and development activity including:
 - a. Core general sector training requirements (e.g. Induction, Supervision, Customer Service)
 - b. Targeted technical training for specific roles within organisations (e.g. Governance, Reporting, Industrial Relations, Financial Management)
 - c. Formal Qualification attainment or extension (e.g. TAFE or University programs)
 - d. Personal professional development (e.g. conferences, seminars, workshops)
3. Use the mapping process to improve the sourcing and management of cross sector training and development processes and programs.

6. Identify strategic measures necessary to attract, retain and build a sustainable ACT community sector workforce.

The survey of community sector employers conducted as part of the Review process asked a range of questions in relation to attraction and retention of workers within the ACT community sector. The key findings were as follows:

What was the total staff turn-over rate for your organisation for the 2008-09 financial year?

n	Mean	Median	Std. Deviation
50	29%	24%	23%

The mean staff turn-over for respondents' organisations was 29% with a standard deviation of 23%. The median staff turn-over was 24%.

The turnover rate identified through the survey process is similar to other figures obtained in relation to turnover in the sector historically (e.g. ACTCOSS surveys). Of note is the standard deviation of 23% which indicates that some organisations turnover rates are significantly higher and lower than the mean.

The survey also sought to obtain information from respondents in relation to the most significant challenges in relation to attraction and retention. These were summarised as follows:

What is the most significant challenge to attracting and retaining workers within your organisation?



Base: 60

The majority of respondents said that the single most significant challenge their organisations face when trying to attract and retain staff is being unable to offer workers a suitable remuneration package/job security/or conditions (65%). Another 20% said that competing with conditions in the Public Service was a significant challenge.

Key measures to improve the attraction and retention of workers in the ACT Community Sector

Based on the survey data obtained and consideration of how the sector currently operates, the following key measures have been identified to attract workers to the community sector.

1. Sector promotional material and job advertisements should emphasise all aspects of the industry, as each of the elements of attraction were seen as 'important' or 'very important' by respondents.
2. One aspect that might benefit from greater emphasis is the Organisation or Industry culture (e.g. equity, values, friendliness) as this was clearly identified as an important 'other' factor in the survey.
3. Consistent with the concept of Shared Services included as an improvement option in this Report, the efficiency and effectiveness of attraction and recruitment processes and outcomes may benefit from the increased centralisation of recruitment and workforce promotional activity as part of any move towards a shared services approach.
4. The level of remuneration, particularly when compared to the public sector, may be addressed by the Pay Equity case currently before Fair Work Australia. If the case is successful as presented at present by the ASU, over time the relativities in terms of the pay differentials between the community sector and the public sector will significantly reduce. However, in the interim, it is difficult to identify any alternative options for addressing this issue.
5. Based on the survey responses, one in four community organisations do not currently have Public Benevolent Institution and/or Health Promotion Charity status. Further, one in five organisations do not offer their employees salary packaging services. Confirmation of whether this concessional taxation status can be obtained by organisations who currently do not have it, combined with the extension of salary packaging arrangements to

more of the workers within the sector may improve the attraction and retention outcomes for the sector as a whole.

6. The concerns regarding limited career development opportunities may be able to be addressed, in part, through the implementation of the improvement option included in this report relating to Workforce Development. If implemented, this improvement option has the potential increase the access to training and development options available to workers across the ACT community sector.

Attachment A – Summary of Core Themes from previous reviews of the ACT Community Sector

Source	Theme	Issues	Current Review Comments
Community Sector Task Force 2006	Core Pricing Principles	Draft developed but not yet finalised and implemented	Core pricing principles and agreed consistent guidance remains a problem for the government and organisations in determining pricing and value for money.
ACTCOSS Report 2008	Core Pricing Principles	Note pricing principles initiative of JCGRC but cautions against oversimplification.	Core pricing principles and agreed consistent guidance remains a problem for the government and organisations in determining pricing and value for money.
Community Sector Task Force 2006	Pay parity	Assess and analyse the extent of attraction and retention problems	Pay remains an important attraction and retention issue for the sector. The national Pay Equity process is likely to address some of these issues.
ACTCOSS Report 2008	Pay supplementation	ACT Government to provide a one off payment to redress the gaps between comparable public and community sector roles.	Pay remains an important attraction and retention issue for the sector. The national Pay Equity process is likely to address

Source	Theme	Issues	Current Review Comments
			some of these issues.
ACTCOSS Report 2008	Shared Services	Piloting and voluntary involvement in shared services arrangements.	Shared servicing pilots have been conducted in two organisations. Lessons learned from these should be consolidated and used to progress shared services in the sector.
Community Sector Task Force 2006	Industrial Relations Advice	Options for the provision of IR advice, resources and support to be identified through consultation with the sector.	The review has identified an opportunity to improve the efficiency, effectiveness and consistency of IR advice to the sector.
ACTCOSS Report 2008	Workforce Development	Undertake a sector training needs analysis and establish a collaborative approach to meet the identified needs.	The review has identified that there are potential efficiency and effectiveness opportunities for the sector to improve access and reduce costs associated with core sector training needs.