



Community Sector Advocacy Day 11 March 2009

Community Sector Sustainability: Background Paper

Introduction

The community sector in Victoria plays a vital role in providing support and resources to vulnerable and disadvantaged families and individuals to enable them to participate in the community to their fullest capacity. Community organisations provide a diverse range of services including:

- health services
- residential aged care
- disability services
- home and community care
- child care
- child welfare
- family relationship services
- financial and material support
- employment/ training services
- housing and homelessness services
- supported accommodation
- legal services
- individual and family relationship counselling
- information, advice and referral services
- individual advocacy
- youth services
- sexual assault and family violence services

A strong, vibrant and sustainable community sector requires appropriate and secure funding that allows agencies to meet community needs, employ a skilled workforce and maintain organisational infrastructure.

However, community sector organisations are reporting significant financial pressures which are impacting on their ability to provide services to vulnerable and disadvantaged Victorians. A key issue is that government funding does not accurately reflect the cost of providing services. Funding has also not kept pace with cost increases such as wages, rent and petrol prices. As a result, there is increased pressure on community organisations to fundraise or increase fees to balance budgets. However, this is becoming increasingly

Community sector organisations are reporting significant financial pressures.

Demand is expected to increase placing an even greater strain on overstretched services.

difficult due the global financial downturn which has reduced organisations' financial reserves, income from donations and corporate and philanthropic support. This comes at a time when demand for social services is expected to increase due to slower economic growth and rising unemployment which is placing an even greater strain on what are already overstretched social services.

Organisations are having to reduce services and staffing and establish long waiting lists.

As a consequence, community sector organisations are having to reduce services, tighten eligibility criteria, establish long waiting lists and reduce staff numbers. Organisations also have to prioritise more urgent cases limiting opportunities for valuable early intervention work which aims to prevent families and individuals from slipping into further crisis.

A recent survey of over 200 community organisations undertaken by the Allen Consulting Group and the Victorian Council of Social Service (VCOSS)¹ highlights the impact of funding pressures on community organisations and the people they support:

- Sixty per cent of survey respondents said that their organisations' current level of funding was insufficient to cover the services they are required to deliver and a third of these organisations had to reduce the scope of their services as a result.
- In the last year, 69 per cent of organisations had turned away people from their service. Sixty-two per cent said that they turned clients away after providing them with only basic assistance due to capacity constraints and 30 per cent said they turned clients away after providing them with no assistance at all.

'We have stretched our resources as far as we can go without placing inordinate pressure on staff or cutting services to the community'

'Our funding is sufficient to deliver the services we are 'required' to deliver. It is not sufficient to deliver the services our clients need.'

These results reflect findings from the 2008 Australian Community Sector Survey undertaken by the Australian Council of Social Service. Victorian agencies reported:

- a 6% increase on the number of people who received a service in Victoria in 2006-07 compared to the previous year;
- a 33% increase in the number of people turned away

1. The quotes highlighted in this paper were taken from the Allen Consulting / VCOSS survey - *The Allen Consulting Group, 2008, How Many Wheelchairs can you push at once? Productivity in the community service organisation sector in Victoria, Melbourne.*

from agencies in 2006-07 compared to the previous year;

- that 65% of the people turned away were eligible for support but the service could not offer assistance because it was operating at maximum capacity.²

Given that these results reflect the 2006/7 financial year, it is reasonable to conclude that these pressures are even more acute now given the economic downturn.

Community organisations are asking all Members of Parliament to consider the important role of community organisations and the impact that any reduction in service would have on local communities. Community organisations are calling for appropriate levels of government funding, including indexation of 4.2% across all government departments, to ensure funding keeps pace with costs and community need.

Current challenges facing community organisations

Global economic downturn

Community organisations are already feeling the impact of the global economic crisis. The economic downturn has reduced investment income, donations through fundraising and corporate support and the funding available through philanthropic organisations. For example, a large disability service has reported to VCOSS that in the first quarter of this financial year, telemarketing and raffles were down 50% and major gifts down 20% compared to the same quarter the previous year. Many organisations anticipate that income raised through fundraising will drop dramatically in the next 12 months as has already been experienced in the US and UK.³

These alternate sources of funding are vital to subsidise government funding. Any drop in this income will have a direct impact on organisations' ability to maintain service provision.

² Australian Council of Social Service, 2008, *Australian Community Sector Survey Report 2008*, Sydney.

³ The Allen Consulting Group, 2008, *How Many Wheelchairs can you push at once? Productivity in the community service organisation sector in Victoria*, Melbourne.

Over two thirds of organisations have had to turn away people from their service.

'Our organisation is at a tipping point, if we receive less funding we will be forced to reduce our services.'

Community organisations are already feeling the impact of the global economic crisis.

'We shouldn't have to rely on other sources of funding to operate core services that keep people safe and well.'

Any drop in income will have a direct impact on organisations' ability to maintain service provision.

Many organisations rely on investments and fundraising to fund new initiatives and programs or the capital required to deliver services. Organisations also often use this income to fund initiatives which make a huge difference to client outcomes such as payment of utilities bills, assistance with school excursions and clothing for job interviews. Shortfalls in government funding combined with the current economic climate means that community organisations have less income available to them and may be forced to cut services, programs and staff to balance budgets.

Increasing demand

The global economic downturn is increasing demand for services.

The global economic downturn is also increasing demand for services. A recent report by Access Economics forecasts that the global financial crisis will put community organisations under even greater strain than currently predicted. The impact of the global financial crisis on the Australian economy will have an acute impact on the most disadvantaged pushing increasing numbers of low and middle income earners to seek the services of welfare agencies. The greatest increases in demand will most likely be for:

- employment services;
- housing services;
- financial counselling services;
- emergency relief services; and
- counselling services. ⁴

'Our service has been cut to the bone, any further cuts will impact on the quality of service to clients.'

The current economic climate highlights the importance of maintaining a strong and sustainable community sector which can respond to the needs of the increasing number of vulnerable and disadvantaged Victorians.

'The organisation is fully stretched, cutting services would be the only response available.'

⁴ Access Economics, 2008, *The impact of the global financial crisis on social services in Australia, an Issues Paper prepared by Access Economics for Anglicare Australia, Catholic Social Services Australia, The Salvation Army and UnitingCare Australia.*

Keeping pace with costs

To ensure funding keeps pace with cost increases such as the Wage Price Index (WPI) and Consumer Price Index (CPI), some government funding is subject to price indexation. This provides one annual adjustment to base funding to cover normal annual cost increases. The Department of Human Services, for example, currently provides an annual increase of 2.9% to funded services. However, over the past five years, wages growth has outstripped this price index and high inflation has put significant pressure on the ability of community organisations to meet operating costs and provide the required level and quality of services. Without adequate indexation, the value of the funding does not keep pace with increasing costs which compounds all these other challenges.

Shortage of skilled staff

The recruitment and retention of skilled staff is a key challenge for the community sector. The increasing complexity of client needs demands a highly skilled workforce which can respond to these needs, develop innovative service responses and meet the Government's increased compliance demands. However, the disparity in wages and conditions in the community sector compared to the public and private sectors makes it very difficult for agencies to recruit and retain skilled and qualified staff.

Funding pressures are also forcing organisations to reconsider staffing levels. Some organisations have already had to reduce staff. Thirty-three per cent of respondents to the Allen Consulting /VCOSS survey indicated that they have reduced staffing numbers in response to insufficient funding. There is a real risk that more community organisations will have to shed staff if funding does not increase.

Cost of compliance

Community organisations report that the increasing cost of regulation and compliance is posing a significant burden on budgets. Compliance frameworks are often cumbersome and reporting requirements may differ across government departments. In addition the cost of implementing new legislative requirements is often not funded. Examples of

Without adequate indexation the value of the funding does not keep pace with increasing costs compounding all these other challenges.

'Our staff are seeking better paid positions in the for-profit sector.'

The recruitment and retention of skilled staff is a key challenge for the community sector.

Thirty-three per cent of survey respondents have had to reduce staffing numbers in response to insufficient funding.

'Our inability to pay market wages has resulted in a high turnover of staff. What's more, we compete with each other for the best staff. Staff are not only leaving because of low wages but also tough condition — they are working harder than ever.'

legislative changes that have increased compliance costs include the *Children, Youth and Families Act 2005* and the *Disability Act 2006*.

Responding to these challenges

The community sector is calling for increased government investment to enable organisations to deliver more services to more Victorians in a planned and sustainable way. This includes adequate levels of core funding as well as appropriate indexation to ensure funding keeps pace with costs.

Price Indexation

Negotiations have commenced regarding indexation for the 2009-2012 Funding and Service Agreements between the Department of Human Services and the health, housing and community services.

Price indexation is one of two elements in the case for adequate funding. First, there is the issue of getting the base price right so that it covers the full cost of service delivery. Secondly, appropriate price indexation must be applied to ensure that the value of the base price is not eroded over time. Without adequate indexation, the funds allocated at the beginning of a three year funding agreement will not be worth the same value over the life of the agreement and organisations will have to cut back on service delivery or subsidise government funding with other sources of funding.

Adequate price indexation for funding provided by the Government is essential to ensure that the value of the funding keeps pace with costs.

Allen Consulting Group

VCOSS commissioned the Allen Consulting Group to provide two reports to consider what an appropriate Price Index should be and whether the sector can sustain any productivity savings (productivity is defined as achieving more outputs with the same or fewer inputs).

The first report *NGO Price Indexation* recommended that the price Index for 2009-12 should be 4.2% where 85 percent reflects labour costs and 15 percent non-labour costs.⁵

⁵ Allen Consulting Group, August 2008, *NGO Price Indexation*, VCOSS, Melbourne.

The follow-up report *'How many wheelchairs can you push at once? Productivity in the community service organisation sector in Victoria*, considered whether community service organisations can sustain any further productivity savings. Allen Consulting based its findings and recommendations on a survey of 198 community organisations and 13 targeted focus group interviews. The key findings include:

- Victorian community sector organisations are already working as efficiently as they can and further improvements are not possible without additional funding to do so.
- Sixty per cent of survey respondents said that their organisations' current level of funding was insufficient to cover the services they are required to deliver and a third of these organisations had to reduce the scope of their services as a result. 52 per cent of these agencies said that their clients would be considerably worse off without their organisation's services.
- In the last year, 69 per cent of organisations had turned away people from their service. Sixty-two per cent said that they turned clients away after providing them with only basic assistance due to capacity constraints and 30 per cent said they turned clients away after providing them with no assistance at all.
- Organisations report relying on 'other' sources of funding from fundraising, investments and philanthropists to meet funding shortfalls.
- Seventy two per cent of respondents said that they were unable to implement any further changes to increase productivity due to a lack of funding.
- Many respondents said the increasing cost of compliance and reporting was imposing a significant financial burden on their organisations and reduced efficiencies.

60% of survey respondents said that their organisations' current level of funding was insufficient to cover the services they are required to deliver.

52 per cent of these agencies said that their clients would be considerably worse off without their organisation's services.

Goals for price indexation 2009-12

The community sector is calling for:

- Minimum of 4.2% indexation (where 85 percent reflects labour costs and 15 percent non-labour costs); and

- This price index should be applied to all State Government funded services.