

# **Count the Cuts**

## **July – December 2004**

The Impact of Indexation and Declining Funding on  
Community Sector Organisations

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Centre for Excellence in Child and Family Welfare (CWAV)

Victorian Alcohol and Drug Association (VAADA)

Domestic Violence Victoria (DV Vic)

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# Executive Summary

This report presents the findings of the third *Count the Cuts* survey for the six-month period from July to December 2004. Initiated in 2003, this longitudinal study was designed to trace the impacts of funding indexation and non-funded cost increases on the operating environment of Community Service Organisations (CSOs). The survey focuses on three primary areas of CSOs operations – service provision, financial health and cost and compliance issues.

## Key Findings

### Service Provision

- 42% of organisations reported increased numbers of clients.
- 42% of organisations created or tightened eligibility requirements.
- 61% of organisations reported that waiting lists had increased.
- 42% of organisations reported an increased reliance on volunteers.
- 29% of organisations were forced to defer or abandon programs that did not receive DHS funding.

### Financial Health

- 32% of organisations recorded a budget deficit.

- 90% of organisations subsidised DHS funded programs with other organisational funds.
- 81% of organisations reported major cost increases.

### Cost and Compliance

- 74% of organisations reported an increase in compliance pressures.
- 61% of organisations reported that WorkCover or wage costs exceeded funding indexation.

## Comparison with 2003

### Service Provision

- the proportion of organisations reporting increased waiting lists rose by 23%.
- The proportion of organisations creating or tightening eligibility requirements increased by 19%.
- The proportion of organisations reporting an increased reliance on volunteers rose by 19%.
- The proportion of organisations abandoning or deferring DHS funded programs remained the same.

## Financial Health

- The proportion of organisations recording a budget deficit decreased by 3%.
- The average cash reserves held by CSOs increased\* .
- The proportion of organisations subsidising DHS funded programs increased by 32 %.
- The proportion of organisations reporting major cost increases rose by 11%.

## Cost and Compliance

- The proportion of organisations reporting increased compliance pressures increased by 16%.
- The proportion of organisations reporting that WorkCover or wage costs exceed funding indexation decreased by 7%.

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\* This increase is largely the result of a single organisation, which reported a significantly higher level of operating cash than all other organisations. This Organisation did not participate in the previous two surveys.

## Background

The Department of Human Services (DHS) currently provides funding to approximately 2481 Community Sector Organisations (CSOs) in Victoria<sup>1</sup>. In 2003 the DHS introduced a Productivity Savings Charge (PSC) a new three year price index allocated to CSOs. Originally intended to apply to large public sector agencies, the PSC was essentially a tax that presumes organisations will respond to decreases in funding by operating more efficiently.

In 2004, the PSC was replaced with an across the board indexation percentage equivalent to CPI but not equivalent to the increases in costs experienced by the sector. In real terms the indexation arrangements amount to a gradual reduction of State Government funding against projected cost increases.

For many in the sector inadequate indexation is seen as a genuine threat to the viability of services and programs. Indeed, the Government's own Public Accounts and Estimates Committee expressed concerns that these indexation arrangements may not in fact, "keep pace with the cost of delivering services"<sup>2</sup>

The erosion of funding is based on the idea that CSOs have the capacity to find 'productivity savings' by operating more efficiently. However many in the sector believe that this is not possible. This is supported by a report commissioned by the Victorian Government in 2003, international accounting firm KPMG found that "the scope for productivity savings among welfare agencies was limited"<sup>3</sup>. Ultimately there are concerns that indexation will fail to meet actual cost increases.

VCOSS and other peak bodies in the Victorian community sector initiated the *Count the Cuts* survey in 2003, to document the impacts of indexation and non-funded cost increases on CSOs. This report presents the results of the third stage of the survey.

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<sup>1</sup> Department of Human Services (DHS) 2003, *Annual Report 2003-2004*, Victorian Government, Melbourne  
<sup>2</sup> Public Accounts and Estimates Committee (PAEC) 2002, *Report on 2002-2003 Budget Outcomes*, pp. 241

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<sup>3</sup> The Age, 'Government Suppresses Welfare Cuts Report', 11 November 2003, p.4

## Aim

The aim of the *Count the Cuts* survey is to trace the impact of indexation and non-funded cost increases on CSOs. The key areas examined in this study are:

- Service provision
- Financial health
- Cost and compliance issues

## Methodology

The survey comprises 17 questions that are divided between the key areas. Combining both quantitative and qualitative components, the survey is designed to gather data that illustrate the combined effects of indexation and non-funded cost increases.

The survey is completed at six-monthly intervals by a range of organisations across the community sector. The services provided by these agencies include:

- Disability support
- Aged care
- Drug and alcohol services
- Housing and accommodation services
- Children and young people's services
- Domestic violence services
- Family support
- Community support

The survey was emailed to peak bodies in

Victoria who distributed it throughout their member networks. Thirty-one CSOs from rural and metropolitan Victoria participated in the current survey period.

The current survey was completed by 31 CSOs from rural, regional and metropolitan Victoria. The sample represented a broad range of organisations, collectively providing services in the following areas:

- Disability
- Supported accommodation
- Child and Family services
- Aged care
- Alcohol and Drug services
- Community Housing
- Education

The questionnaire has been distributed three times since early 2004, covering the reporting periods July to December 2003, January to June 2004 and the current survey period, July to December 2004.

### Methodological limitations

The results of this survey must be considered against a significant methodological limitation. The extent to which the current survey results can be compared with those of previous survey periods is restricted by inconsistencies between the samples. The voluntary nature of this study has meant that a different group of organisations has participated in each stage of the survey. Although some

organisations have participated in more than one survey period, this has not been consistent. Furthermore the sample has not been randomly selected and is therefore not representative of all CSOs. Consequently, comparisons made between this and previous stages of the survey may not reflect trends accurately. However, the consistency of trends identified indicate some major issues that require attention if the quality of community services delivered to Victorians is to be sustained and improved over time.

# Survey Results

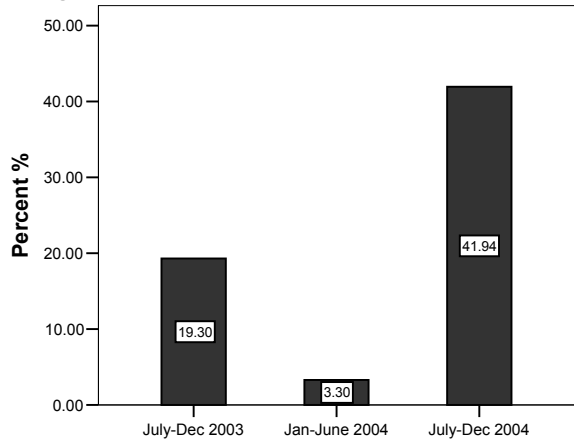
## Service Provision

The impact of indexation and non-funded cost increases on CSOs is evident across a number of service delivery areas. This section presents the results from the survey that relate directly to service provision. Specific areas of focus include changes in client numbers, waiting lists, eligibility requirements, program development and reliance on volunteers.

### Number of clients

The results suggest demand for services increased during the survey period, with 42% of respondents reporting they had supported more clients than they did in the previous six month period. As figure 1 shows this is a substantially higher proportion of CSOs than that found in the first and second stages of the survey (19% and 3% respectively). The immediate impact of increasing demand is evident in the size of client waiting lists and changes to the eligibility criteria for clients seeking to access services.

**Figure 1: Percentage of CSOs supporting more clients than in the previous six months: Longitudinal comparison**



### Eligibility requirements

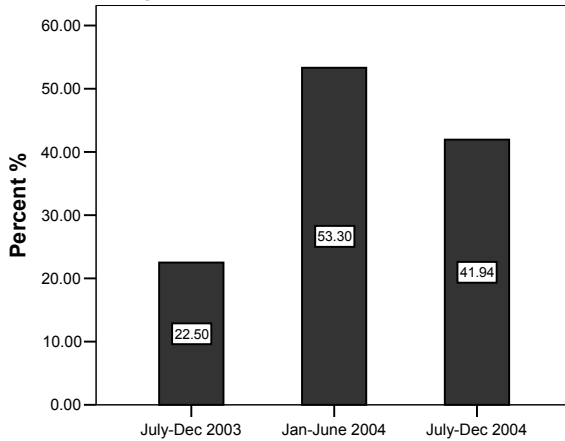
Many CSOs indicated that “service eligibility criteria are narrowing around those with the most urgent or critical needs”<sup>4</sup>. Between July and December 2004, 42% of CSOs created or tightened eligibility requirements, a jump of almost 20% since 2003 (see figure 2). This finding is supported by a national survey, which found that 68% of CSOs had to turn away people seeking services, and 69% were targeting services more tightly than in the past<sup>5</sup>. As one CSO pointed out this means that services are focusing more on “crisis intervention and less on long-term support” or early intervention<sup>6</sup>.

<sup>4</sup> Organisation from community housing sector

<sup>5</sup> Australian Council of Social Services 2005, *Australian Community Sector Survey 2005*, p. 13-15

<sup>6</sup> Organisation from drug and alcohol sector

**Figure 2: Percentage of CSOs creating or tightening eligibility requirements during survey period: Longitudinal comparison**



**Figure 3: Percentage of CSOs reporting increases waiting lists during survey period: Longitudinal comparison**



### Waiting lists

Evidence that funding is not keeping pace with demand for services is seen in the number of CSOs reporting an increase in client waiting lists. 61% of respondents reported that waiting lists for services increased during the survey period. This is a significantly higher proportion than that found in the first and second stages of the survey (see figure 3).

Respondents expressed a common concern that longer waiting lists lead to “increased client distress”<sup>7</sup>, “less services per client”<sup>8</sup> and the “exclusion of some clients”<sup>9</sup>. It was also noted that added pressure to staff as a result of waiting lists increased the likelihood of “worker burnout”<sup>10</sup>.

### Volunteer staff

A major area of concern for CSOs is staff stress, with many organisations experiencing difficulty retaining or attracting suitably qualified staff. One consequence of this has been an increasing reliance on volunteer workers. Volunteers form the backbone of community service industries, amounting to just over 50% of the workforce.<sup>11</sup> As figure 4 shows reliance on volunteers has increased steadily from 2003, when only 19% of respondents had become more reliant on volunteers compared with 42% in the current survey period. It is worth noting that some CSOs had not become more reliant on volunteers because they were either “already very reliant on volunteers”<sup>12</sup> or run entirely by

<sup>7</sup> Organisation from disability sector

<sup>8</sup> Organisations from aged care, disability, homelessness sectors

<sup>9</sup> Organisation from disability sector

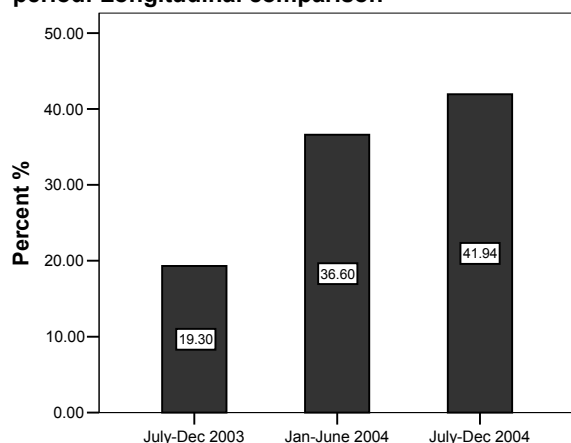
<sup>10</sup> Organisation from children and family sector

<sup>11</sup> Australian Council of Social Services 2005, *Australian Community Sector Survey 2005*, p. 13-15

<sup>12</sup> Organisation from drug and alcohol sector

volunteer staff<sup>13</sup>. Although they are not represented in the figures, it was also reported that paid staff were often volunteering their time “in excess of contracted time”<sup>14</sup>.

**Figure 4: Percentage of CSOs reporting increased reliance on volunteers during survey period: Longitudinal comparison**



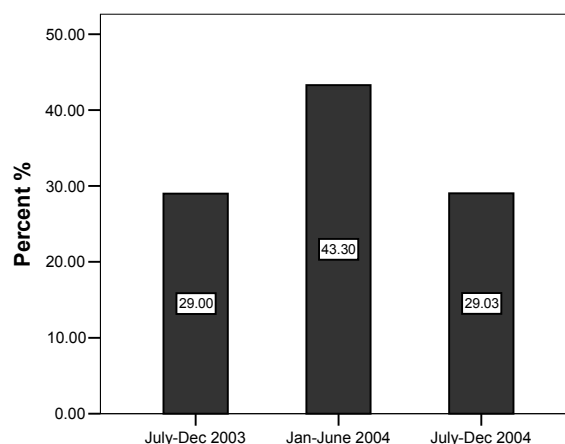
### Programs

The number of CSOs forced to defer or abandon programs not funded by DHS was 29% during the current survey period (see figure 5), while a further 13% indicated they were considering this for the future. Indexation arrangements had adversely impacted on 52% of CSOs programs.

Programs affected include:

Staff training, services to redefine and restructure services, financial management, family support, early intervention programs, governance and management support.

**Figure 5: Percentage of CSOs deferring or abandoning programs during survey period: Longitudinal comparison**



### Other impacts on service provision

Although CSOs are trying to minimise the effect of indexation and non-funded cost increases on service provision, it is proving difficult. On top of the effects already discussed, 45% of respondents reported that indexation has impacted on other client services.

Many CSOs have been forced to distinguish between ‘core’ and ‘non-core’ services to ensure the most crucial services are able to be maintained<sup>15</sup>. A common concern was that organisations were forced to focus on “only the most immediate problems”<sup>16</sup>. This was seen to undermine their capacity to deal with the underlying causes of a problem, and therefore their ability to facilitate long-term change.

<sup>13</sup> Organisation from community housing sector

<sup>14</sup> Organisation from disability sector

<sup>15</sup> Organisations from disability, homelessness children and family sectors

<sup>16</sup> Organisations from disability and children and family sectors

## Financial Health

The single most important issue facing CSOs is funding<sup>17</sup>. In the financial year from 2003-2004 funding to the community sector increased by 6.8% nationally<sup>18</sup>. However this growth was substantially outstripped by operating expenses, which rose by 8.9% during the same period<sup>19</sup>.

This section presents the results of the survey relating to the financial health of CSOs in Victoria. Areas of focus include, budget status, amount of operating cash, subsidising DHS funding and major cost increases.

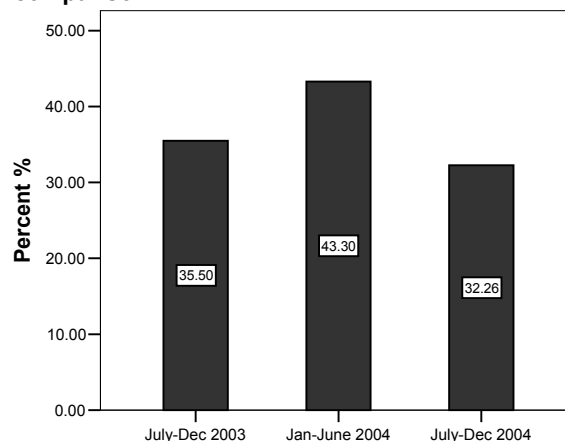
### Budget status

Many of the CSOs surveyed are operating under intense financial pressure, with approximately one third (32%) recording a budget deficit during the survey period. While this is a substantial proportion of the sample, it was slightly less than the proportion found in the previous stages of the survey (see figure 6).

Of the respondents that remained under budget, 23% indicated that this was only possible through the use of other financial inputs. These included the sale of

property<sup>20</sup>, fundraising<sup>21</sup>, return on investments<sup>22</sup>, bequests and donations<sup>23</sup>.

**Figure 6: Percentage of CSOs recording a budget deficit during survey period: Longitudinal comparison**



### Operating cash

The average cash reserves held by the CSOs surveyed was equivalent to 23.5 weeks of operating costs. This was calculated by dividing an organisation's total cash reserves by their average weekly operating costs. This appears to show a significant improvement from 2003 when CSOs averaged only 10 weeks of cash reserves. However, this result is largely due to a single CSO, which reported an unusually high number of weeks (300)<sup>24</sup>. When asked to compare current cash reserves with the previous year 26% of respondents reported that they had less

<sup>17</sup> Australian Council of Social Services 2005, *Australian Community Sector Survey 2005*, p. 9

<sup>18</sup> *ibid*

<sup>19</sup> *ibid*

<sup>20</sup> Organisation from disability sector

<sup>21</sup> Organisation from community housing sector

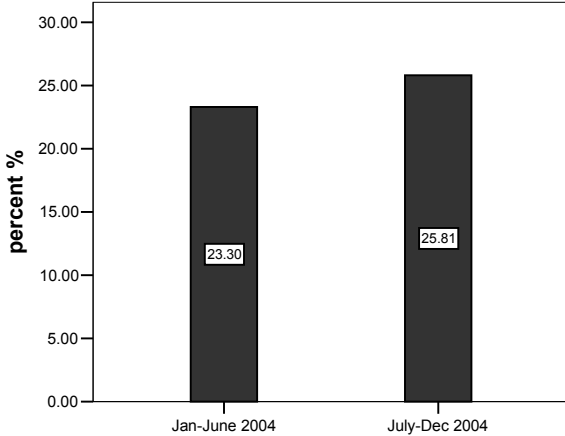
<sup>22</sup> Organisations from child and family sectors

<sup>23</sup> Organisations from aged care, homelessness and disability sectors

<sup>24</sup> Organisation from community housing sector

cash, a slight increase from the previous survey period (see figure 7).

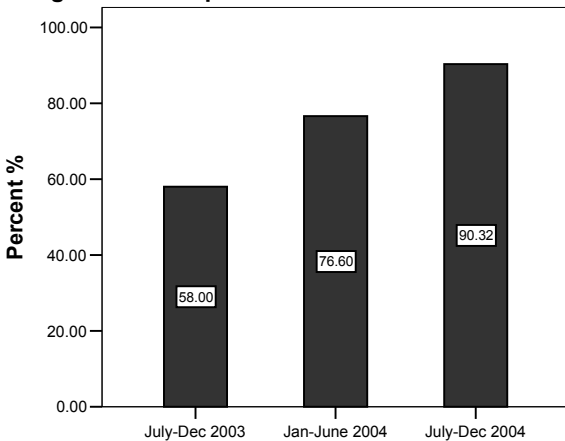
**Figure 7: Percentage of CSOs reporting less operating cash than previous year: Longitudinal comparison\***



**Subsidising DHS funded programs**

As figure 8 shows, the proportion of CSOs subsidising DHS funded programs with their own organisational funds has grown steadily over the previous year and a half.

**Figure 8: Percentage of CSOs subsidising DHS funded programs during survey period: Longitudinal comparison**

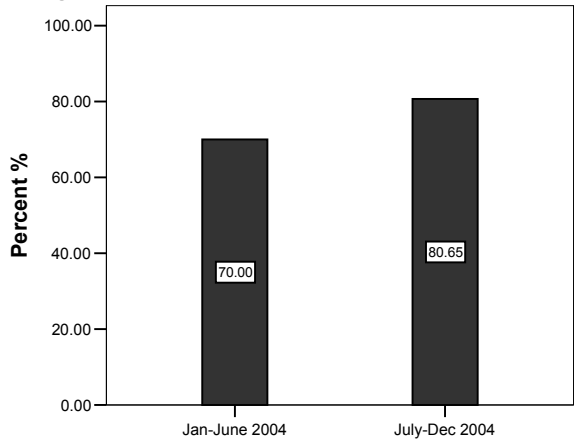


During the current survey period over 90% of CSOs found it necessary to prop up DHS funded programs through fundraising and other commercial activities. On average CSOs subsidised DHS funded programs by 12%-16%, although this figure varied significantly between programs.

**Cost increases**

The proportion of CSOs reporting major cost increases rose from 70% in the second half of 2003 to over 80% in 2004 (see figure 9). The most common increases cited were fuel and vehicle costs<sup>25</sup>, wages, staff training and administration costs<sup>26</sup>, WorkCover and insurance<sup>27</sup>, and renovations and property maintenance<sup>28</sup>.

**Figure 9: Percentage of CSOs reporting major cost increases during survey period: Longitudinal comparison\***



\* Question not asked in first survey

<sup>25</sup> Organisations from disability, supported accommodation, child and family, and alcohol and drug sectors

<sup>26</sup> Organisations from disability, alcohol and drug, homelessness, child and family sectors

<sup>27</sup> Organisations from aged care, disability, youth, homelessness, child and family sectors

<sup>28</sup> Organisations from disability and services sectors

Many CSOs see increased operating expenses as a major threat to service viability. As one organisation pointed out, there are only so many "unfunded costs" an organisation can sustain before it "resorts to cutting programs and staff"<sup>29</sup>.

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<sup>29</sup> Organisation from disability sector

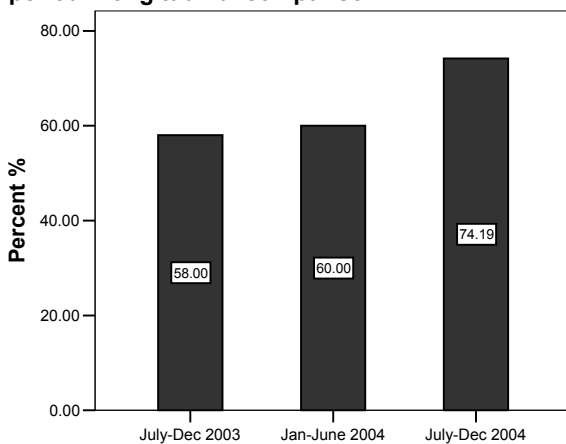
## Cost & Compliance

Compliance requirements are increasingly becoming an issue of concern for many CSOs. Extensive reporting criteria for program accountability, quality assurance, and workplace legislation and safety were previously found to add significant pressure to CSOs<sup>30</sup>. This section presents the results of the survey relating to compliance requirements and wage related costs.

### Compliance pressures

The proportion of CSOs facing increased compliance pressures has risen steadily over the last year and a half, from 58% in 2003 to 74% in the second half of 2004 (see figure 10).

**Figure 10: Percentage of CSOs reporting increased compliance pressures during survey period: Longitudinal comparison**



<sup>30</sup> Moloney, F. & Mammarella, L. 2004 *Count the Cuts* Victorian Council of Social Service: Melbourne

Among those surveyed, the most commonly mentioned compliance pressures were quality assurance<sup>31</sup>, occupational safety and health<sup>32</sup>, funding applications<sup>33</sup> and auditing<sup>34</sup>. A number of CSOs expressed concern that funding arrangements failed to adequately recognise the costs associated with these requirements.

### WorkCover and wage costs

Although the majority of respondents reported that WorkCover or wage costs exceeded funding indexation, the proportion was smaller than that seen in the two previous stages of the survey (61%: see figure 11). Of those who found WorkCover costs exceeded indexation the majority estimated the difference to be between 1% and 5%.

The proportion of CSOs reporting that average pay increases exceeded funding allocations was 48%, although the exact differences between the two varied greatly between organisations.

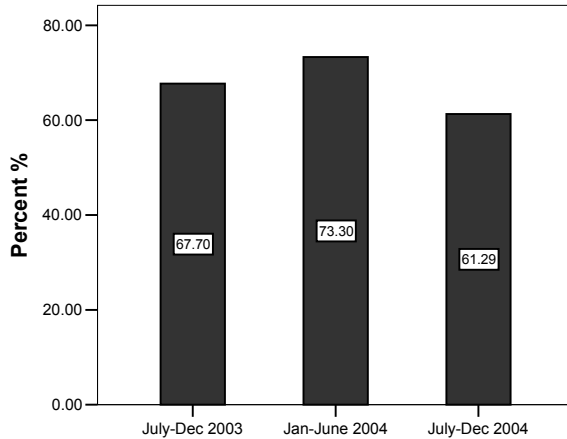
<sup>31</sup> Organisations from disability, crisis accommodation, youth support, child and family sectors

<sup>32</sup> Organisations from supported accommodation, child and family and disability sectors

<sup>33</sup> Organisations from disability, child and family and education sectors

<sup>34</sup> Organisations from aged care, homelessness, child and family, drug and alcohol sectors

**Figure 11: Percentage of CSOs reporting that WorkCover or wage increases exceed indexation: Longitudinal comparison**



### Other compliance issues

Almost half (42%) of those surveyed reported other issues relating to compliance pressures. Several respondents commented that increasing reporting requirements diverted valuable time and resources away from service delivery and program development. Costs reported to be associated with compliance requirements include business infrastructure costs<sup>35</sup>, information technology requirements<sup>36</sup> and administration and management time<sup>37</sup>.

<sup>35</sup> Organisations from youth support, crisis accommodation, disability and aged care sectors

<sup>36</sup> Organisations from supported accommodation, child and family and disability sectors

<sup>37</sup> Organisations from disability and supported accommodation sectors

## Conclusion

From information gathered in the three surveys, a picture is emerging of a community sector under increasing strain. In the second half of 2004 90% of CSOs were forced to subsidise DHS funded programs with their own organisational funds, a jump of over 30% since the previous year. CSOs also reported a significant increase in operating costs and compliance pressures.

The proportion of CSOs able to support fewer clients doubled to 42% in 2004, while at the same time client waiting lists grew. Many CSOs reported creating or tightening eligibility requirements and there was also a substantial increase in reliance on volunteer staff. More concerning however is the implications these changes have for individual clients - some of Victoria's most disadvantaged and vulnerable people.

# Appendix

## **Questionnaire for Community Service Organisations: Building the Evidence in the Sector Viability Campaign.**

**This survey will take approximately 10 minutes to complete. Please return it to both your peak body and to VCOSS by Tuesday 31 May 2005. Information required in this survey is for the period – July to December 2004.**

The *Count the Cuts* survey is administered by VCOSS on behalf of Peak Bodies. The aim of the survey is to build an evidence-based understanding of the impact indexation<sup>38</sup> is having on Community Service Organisations (CSOs). Taking the time to complete this survey will greatly support the campaign for sector viability and will provide vital evidence in the lead up to the 2006 election-year budget.

In the two previous stages of the survey concerns were raised about the impact of indexation on service provision within the community sector. In particular it was found that:

- The number of clients CSOs are able to support is falling, while waiting lists are growing.
- Many CSOs have been forced to defer or abandon programs and most are becoming more reliant on volunteers
- CSOs are operating with less financial reserves and many are reporting budget deficits.
- Employment costs are increasing beyond funding allocated for these costs.

The survey is designed to collect data on the impacts of indexation in three main areas:

- Service delivery
- Financial health
- Costs and compliance issues

Please be as specific as possible. To concretely illustrate the impact indexation is having on individual lives please let us know how funding arrangements are directly affecting your clients.

### **A. YOUR ORGANISATIONAL DETAILS**

**Please enter the following details:**

Name of organisation		Name of person completing this form	
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<sup>38</sup> These are the productivity savings cuts introduced to the sector by the Victorian Government in 2002, indexation rate for July to December 2004 is 2.6%

Sector		Phone number	
Name of Peak Body		Email address	

**B. IMPACT ON SERVICE PROVISION**

Please tick the box that most accurately represents the experiences of your organisation during the six-month period from July to December 2004.

1. In the six-month period from July to December 2004, has your organisation supported more or less clients than in the previous six-month period (January to June 2004)?	<input type="checkbox"/> MORE clients than in the previous six months <input type="checkbox"/> LESS clients than in the previous six months <input type="checkbox"/> NO CHANGE in the number of clients	
2. Has your organisation had to create or tighten eligibility requirements for clients?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what has been the impact of this on clients?</i>		
3. Has the number of clients on waiting lists at your organisation increased?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what has been the impact of this on clients?</i>		
4. Has indexation impacted on other programs – e.g. deferral of evaluation or program development activities?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what are the programs affected and what has been the impact to these programs?</i>		
5. Has your organisation become more reliant on volunteers?	<input type="checkbox"/> YES	<input type="checkbox"/> NO

<i>If yes what has been the impact of this on service provision?</i>		
6. Has your organisation deferred or abandoned any programs not funded by the DHS?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what has been the impact of this on clients?</i>		
7. Has indexation impacted other client services in your organisation?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what has been the impact of this on clients?</i>		

**C. ORGANISATIONAL FINANCIAL HEALTH**

Please tick the box that most accurately represents the experiences of your organisation during the six-month period from July to December 2004.

1. Did your organisation record a budget deficit in this six-month period due to indexation of 2.6%?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, how much was your budget deficit?</i>		
2. How many weeks operating cash reserves does your organisation have? <i>(This is your organisations total cash reserves divided by the average weekly operating costs)</i>	<input type="checkbox"/> Number of weeks	
3. Is it less than the same time last year?	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<i>If yes, what has been the impact of this?</i>		

<p>4. Does your organisation subsidise DHS funded programs with its own organisational funds? (e.g. from organisational fundraising)</p>	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<p><i>If yes, what percentage of program funding comes from organisational fundraising and what type of programs?</i></p>		
<p>5. Is your organisation experiencing major cost increases?</p>	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<p><i>If yes, what are these costs and what has been their impact?</i></p>		
<p>6. Are there other issues that have influenced your organisations financial reserves?</p>	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<p><i>If yes, what have these been and what impact have they had on service provision?</i></p>		

#### D. COST AND COMPLIANCE ISSUES

Please tick the box that most accurately represents the experiences of your organisation during the six-month period from July to December 2004.

<p>1. Do increases in 'Work Cover' or wage costs exceed funding indexation?</p>	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<p><i>If yes, by how much?</i></p>		
<p>2. Has your organisation experienced an increase in compliance pressures? (For example reporting to funding bodies, other accountability or reporting requirements to government bodies).</p>	<input type="checkbox"/> YES	<input type="checkbox"/> NO
<p><i>If yes, what are these pressures?</i></p>		



**Would you like to contribute towards compiling and analysing the data gathered in this survey?**

We are prepared to commit the following amount to the fund for data analysis.	<input type="checkbox"/> \$100	<input type="checkbox"/> \$500	<input type="checkbox"/> \$1,000
	<input type="checkbox"/> \$250	<input type="checkbox"/> \$750	<input type="checkbox"/> Other .....

**THANK YOU  
FOR TAKING THE TIME  
TO FILL OUT THIS QUESTIONNAIRE**

<p>Please now return this form to VCOSS and your peak body no later than Tuesday 31st May 2005 Either by email to <a href="mailto:andrew.wilson@VCOSS.org.au">andrew.wilson@VCOSS.org.au</a> (with copy to your peak body) or by fax to VCOSS on 9654 5749 (with copy to your peak body)</p>
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