

VICTORIA

Victorian
Auditor-General

Audit summary
of
Partnering with the
Community Sector in
Human Services
and Health

Tabled in Parliament
26 May 2010

Audit summary

Community sector organisations (CSO), also known as non-government organisations, operate for a community or social purpose, are self-governing and do not distribute profits. They operate independently from government and receive funds from multiple sources, including state and federal government, donations and philanthropy. CSOs range from small, local organisations, to large, state-wide operations.

CSOs play a crucial role in the delivery of state funded health and human services. In 2009–10, the Departments of Human Services (DHS) and Health (DH) are providing almost \$1.7 billion to about 800 CSOs to provide services in housing, child, youth and family, disability, mental health, drug and alcohol, aged care and other social services. This represents just over 11 per cent of the \$14.7 billion budget for these departments in 2009–10.

The departments have service agreements with CSOs which define the basis for the relationship including funding to be provided to the CSOs, expected service delivery outputs, service standards, and financial and performance related accountability requirements. The service agreement is part of the framework established by the departments for the funding, delivery and monitoring of services provided on the state's behalf by CSOs.

The significant role played by CSOs in delivering services to the community on behalf of the state highlights the importance of a strong partnership between the departments and CSOs. The government has emphasised the importance of this partnership relationship and wants to make its interactions with CSOs streamlined, easy to navigate, and designed to optimise value to the community. A partnership memorandum of understanding (MOU) is in place between DHS and the sector.

Consistent with government objectives for its relationship with CSOs the objective of the audit was to examine whether the departments' management of the service agreement framework supports effective service outcomes and accountability.

Overall conclusion

There is a high level of assurance that CSOs are delivering agreed services and are accountable for allocated funding. The departments' management of service agreements with CSOs is effective in providing clarity about expected service outputs, standards and accountability requirements, and in providing assurance that these are met.

Nevertheless, there are a number of specific lesser-order aspects of the service agreement system which can be improved to strengthen the overall system. There is room to improve the way service agreements are established and monitored to move the relationship with CSOs closer to a partnership. The departments can also improve consistency in managing and monitoring service agreements to further reduce the administrative and related cost burdens placed on CSOs without compromising accountability.

Findings

Service agreement content and supports

The content of the service agreements between the departments and CSOs is fundamentally sound. The departments continually review and assess service agreement arrangements and introduce improvements such as three year agreement terms to provide greater certainty to CSOs, and 'plainer English' for the agreement. Current financial accountability requirements for CSOs are generally sound and in line with the partnership approach.

While improvements have been made, opportunities remain to better partner with CSOs through greater engagement and transparency:

- current processes establishing service agreements miss the opportunity for the departments to engage in more holistic service planning conversations with CSOs
- the transparency of departmental funding arrangements, particularly the basis for unit prices paid to CSOs, can be improved
- the departments have been slow to fully address related recommendations made by the Public Accounts and Estimates Committee in 2002 from its inquiry into DHS service agreements with the community sector.

Managing service agreements

The departments gain appropriate assurance that CSOs are accountable for allocated funding and deliver agreed services. This assurance is achieved through comprehensive monitoring processes and the relationships departmental staff develop with CSOs.

Despite the availability of comprehensive guidance and support material, there is significant variation across the departments and between regions in how staff manage and monitor service agreements with CSOs. These variations are beyond what would normally be expected across large organisations for what are core business processes. This means that departmental approaches to negotiating agreements, allocating new funds, and levels of monitoring and feedback are inconsistent. These inconsistencies are highlighted when CSOs work across multiple regions and/or program areas.

Further guidance is needed for departmental staff on how day to day agreement management and monitoring should occur and be documented. A central point of authority is required in the departments to drive consistent application of funding practices and service agreement management.

There are also opportunities to reduce the burden on CSOs by consolidating the multiple requirements relating to external review of service standards and data collection. The departments have identified these issues, but progress has been slow and many issues remain to be addressed.

The departments have been partly successful in meeting their partnership aims. Departmental staff have established strong relationships with CSOs at the individual funded program level and broader sector engagement occurs with both peak bodies and individual CSOs.

However, the departments' management of CSOs service agreements is not fully consistent with the broad vision and principles in the partnership MOU, due to variable approaches to:

- engaging in genuine negotiation of agreements with CSOs
- involving CSOs in planning
- being transparent about funding processes
- providing feedback to CSOs.

The recent introduction of 'client attached funding' in the disability program and its potential to flow-on into other program areas has significant implications for DHS's service agreement approach and relationship with affected CSOs. This is because increased client choice of service provider means less certainty about the service levels and types to be provided by particular CSOs.

DHS and CSOs recognise the benefits of working in partnership now and in the future and have processes in place to support this. The newly created Department of Health is currently determining its approach to partnering with CSOs.

Recommendations

Number	Recommendation	Page
1.	The departments should align the service agreement content more closely with partnership principles.	19
2.	The departments should hold annual 'whole of agreement' meetings with CSOs to review performance and whether funded activities are meeting client needs, and use this information in service planning.	19
3.	The departments should release policy and funding plans and associated updates before the relevant financial year begins.	19
4.	The departments should adopt the Public Accounts and Estimates Committee's 2002 recommendation and be transparent with CSOs about how they calculate unit prices.	19
5.	DHS should improve the <i>Price Review Framework</i> to include: <ul style="list-style-type: none"> • minimum requirements and standards for price reviews • routinely reporting the date of the last price review and its status for all program areas to the Human Services Partnership Implementation Committee. • how CSOs manage when agreed price reviews are not funded. 	19
6.	The departments should have a central point of authority so funding practices and service agreement management are consistent.	19
7.	The departments should clarify expectations and processes for service agreement negotiation, in line with partnership objectives.	32
8.	The departments should give priority to improving the allocation of new funding.	32
9.	The departments should further reduce the data reporting and accreditation requirements burden on CSOs.	32
10.	The departments should recognise the costs incurred by CSOs that partner with them when reviewing and adjusting unit prices and other funding mechanisms.	32
11.	The departments need to guide staff better on using partnership principles when managing service agreements with CSOs.	32
12.	DH should clarify its approach to the partnership agreement.	32